

**THE "HOMEOWNERSHIP AND OPPORTUNITY FOR
PEOPLE EVERYWHERE" [HOPE], INITIATIVES**

JOINT HEARINGS
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
AND THE
SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED FIRST CONGRESS
SECOND SESSION
ON

THE BUDGET AND LEGISLATIVE PROPOSALS OF THE BUSH ADMINIS-
TRATION TO PRESERVE LOW-INCOME HOUSING AND PROVIDE NEW
AFFORDABLE HOUSING OPPORTUNITIES FOR LOW-INCOME FAMILIES;
EXPAND OPPORTUNITIES FOR HOMEOWNERSHIP; AND CREATE JOBS
AND ECONOMIC DEVELOPMENT IN OUR DISTRESSED URBAN AND
RURAL COMMUNITIES

MARCH 20 AND 29, 1990

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THE "HOMEOWNERSHIP AND OPPORTUNITY FOR PEOPLE EVERYWHERE" [HOPE], INITIA- TIVES

TUESDAY, MARCH 20, 1990

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:05 a.m. in room SD-538, Dirksen Senate Office Building, Senator Riegle (chairman of the committee) presiding.

Present: Senators Riegle, Cranston, Sarbanes, Dixon, Sanford, Graham, Bryan, Garn, Heinz, D'Amato, Gramm, Bond, Mack, and Pressler.

OPENING REMARKS OF CHAIRMAN RIEGLE

The CHAIRMAN. Let me handle one item of business. The committee will come to order.

Before we start our formal hearing and we are waiting the arrival of Secretary Kemp who I believe will be here momentarily, I want to announce for the record that as members arrive that we will be recording votes on S. 1853, which is a bill that awards a congressional gold medal to Laurance Spelman Rockefeller, which I now move that the committee report favorably without amendment.

Is there a second?

Senator CRANSTON. I second.

The CHAIRMAN. A second is heard. We will begin the period for voting now and we will maintain that voting period until such time as the hearing concludes. If a quorum is established during that period of time, the final vote will be announced as we adjourn and the measure will be reported to the full Senate.

Let me just say to the clerk I would like to be recorded "Aye" on that matter.

Senator DIXON.

Senator DIXON. Mr. Chairman, I would like to be recorded "Aye."

The CHAIRMAN. Senator Cranston.

Senator CRANSTON. Aye.

The CHAIRMAN. Senator Garn.

Senator GARN. Aye.

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Aye.

The CHAIRMAN. We may find that Budget Director Darman tackled Jack Kemp as he was leaving the HUD building to come down here to testify.

Senator DIXON. Mr. Chairman, in the interim period while we are waiting for the distinguished Secretary, may I ask consent of the chair to place my statement in the record in full?

The CHAIRMAN. Without objection, the statement will be made a part of the record.

STATEMENT BY SENATOR ALAN J. DIXON

Senator DIXON. Mr. Chairman, I join with you in welcoming our distinguished witness this morning, the Secretary of HUD, Jack Kemp, who will present the administration's housing legislative proposal.

I compliment Secretary Kemp for his gracious efforts over the months to keep this Senator and other members of this committee informed of the general directions he planned to take for our assisted housing programs. Additionally, I congratulate him on the good rapport he has developed with both recipients and providers of our assisted housing programs. I feel certain that Secretary Kemp will continue to work closely with this committee and the various community groups as we develop more available and affordable housing for low- and moderate-income families.

Mr. Chairman, across this country we have an acute housing problem. Between fiscal years 1980 and 1990, federally assisted housing programs were cut by nearly 80 percent. In addition, two-thirds of the poor that have found decent housing are paying more than half of their income in rent. This crisis cannot continue. Affordable housing must again return to the priority it deserves on our Nation's agenda.

Secretary Kemp is before us today to discuss the "Homeownership and Opportunity for People Everywhere" [HOPE] initiative. While I have not had the chance to thoroughly review the proposal, it appears that there are a number of provisions which this committee could adopt or build upon.

I understand, however, that the trust of the proposal is to empower low-income families to become home owners. I applaud this concept. I look forward to receiving the Secretary's testimony so that I may determine how his "HOPE" initiative translates into the "expectations" that this country has for our low- and moderate-income families, and our homeless, handicapped, and elderly citizens. Thank you. Mr. Chairman.

Senator D'AMATO. Mr. Chairman, in the interest of time, I too would like permission to place my statement in the record as if read in its entirety and this way we can save time and hear from the Secretary.

The CHAIRMAN. Very good. We will make that statement a part of the record as well.

STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I am pleased to welcome Secretary Jack Kemp to this committee as he presents the administration's "HOPE," initiative. This proposal is the first housing legisla-

tive package to be submitted by the administration in a number of years. I welcome the opportunity to have the Secretary before us today to discuss this proposal.

This hearing with the Secretary coincides with the introduction of legislation which contains the HOPE proposal. This morning Senators Riegle, Garn, Cranston, and I introduced this proposal in the Senate. A similar bill was introduced by Chairman Gonzalez and Congressman Wylie in the House last week. I am pleased to be part of a congressional effort to support and advance the administration's HOPE proposal.

The HOPE proposal has six major components. They include:

One, HOPE grants: A 3-year, \$2.15 billion, multifaceted program to increase homeownership for low-income families in public housing, publicly held properties, and FHA distressed and foreclosed properties. States, localities and nonprofits will be eligible to apply for the funding. A match of 1 for every 2 Federal dollars will be required.

Two, "Shelter Plus Care" program for the homeless: A 3-year, \$761 million program that combines housing [group homes, single room occupancies and rental assistance] with supportive services for the homeless who are mentally ill or alcohol and drug abusers.

Three, Preservation of low-income housing: Over \$1 billion provided over 3 years to resident groups and nonprofits to purchase federally insured and federally subsidized buildings which are subject to prepayment of their mortgages.

Four, Operation bootstrap: In fiscal year 1991 alone, over 56,000 tenant-based vouchers and certificates will be combined with job training, child care, transportation and other assistance in order to help welfare families and those with low earnings achieve upward mobility.

Five, Housing opportunity zones: 50 zones competitively designated to communities that eliminate costly, unnecessary State and local government regulatory barriers to affordable housing. Federal incentives include targeted FHA insurance and rental rehabilitation preference.

Six, Service-supported housing: A \$44 million demonstration project to provide service supported housing to help the elderly achieve independent living, rather than entering nursing homes.

The HOPE proposal also includes an extension of the low-income housing tax credit, use of individual retirement accounts [IRA's] for downpayments, and creation of enterprise zones—a total of \$187 million in tax subsidies for housing. I have been a long-time advocate for all of these concepts. Many of these are included in S. 566, the National Affordable Housing Act.

IRA'S FOR FIRST-TIME HOMEBUYERS

I have been a particular proponent of the use of IRA's as a downpayment for first-time homebuyers. The Rouse-Maxwell Task Force made a similar recommendation to Senator Cranston and I in our development of S. 566. The HOPE initiative confirms the merit of this proposal by providing \$190 million in tax subsidies over 3 years for this purpose.

RESIDENT HOMEOWNERSHIP

But the HOPE proposal also expands the accessibility of homeownership. This step should not be downplayed. While many of us may differ about specific policy questions, the concept of homeownership is one that we can all embrace. It has proven itself to be a means of building self-confidence and pride. In my own home area of Brooklyn, NY, the Nehemiah Program has been a vivid example of this. A neighborhood that was once decimated has now become a safe and proud community.

SHELTER PLUS CARE ASSISTANCE FOR THE HOMELESS

Another core element of the proposal is also contained in the National Affordable Housing Act. This is the concept of combining housing and services for the homeless and the elderly. Housing advocates have long focused almost exclusively on the housing needs of these two particular populations. In the past few years, some have even gone so far as to say that homelessness is entirely a housing problem. I believe these individuals do not have a firm grasp of the complexities of homelessness today.

On the contrary, the administration's proposal is a simple, yet sophisticated, approach to addressing homelessness. The "Shelter Plus Care" program provides vouchers to nonprofits who assist homeless individuals, particularly those who are seriously mentally ill or alcohol and drug abusers. The voucher must be accompanied by social services.

SERVICE SUPPORTED HOUSING DEMONSTRATION

The HOPE proposal is equally as balanced in its approach to dealing with the elderly. It is not new news that the elderly have a variety of needs. Some of these needs relate to housing. For instance, many of our elderly do not have the income to be able to afford rent. But our elderly also have other needs—in terms of their health, their transportation, and their daily chores.

The HOPE proposal responds to the comprehensiveness of these needs by creating a Service Supported Housing Demonstration Project. This demonstration provides vouchers to the elderly in conjunction with social services.

A PRESERVATION STRATEGY

Over the next 15 years, owners of nearly 334,000 units of FHA insured multifamily housing will become eligible to prepay their mortgages. Prepayment could result in the elimination of low-income use restrictions on these properties, forcing residents to look for other places to live. As a Senator from the State of New York, I am worried that there may not be alternative, affordable places to live.

The HOPE proposal establishes a three-prong approach to preserve this housing for low-income families. The first step would be to allow resident groups and nonprofits the opportunity to purchase their buildings and become home owners. A grant of about \$60,000 per unit would be provided for this type of buyout. Should tenants choose not to purchase the property, a second alternative is

available to preserve the property. HUD will offer incentives to current owners in return for a renewed commitment to keep the projects affordable to low-income families. This is similar to aspects of the low-income Preservation Act of 1987. The last phase of the three prong strategy can be summed up with the word "voluntary". If, after a 24 month period, attempts to convert the project to homeownership or maintain it as a low-income rental project have been unsuccessful, the owner may prepay the mortgage and find alternative, affordable housing for the current residents.

I believe that the administration's preservation proposal provides an excellent foundation for a congressional and administration solution to this difficult problem. For the first time in 3 years, the administration has come to the table with a credible and creative approach to preserving housing for low-income families. It should be noted that this is on top of an additional \$7.7 billion requested in the President's budget for section 8 contract renewals. With such a strong statement from the administration on preservation, it is my belief that the administration and Congress will be able to find a reasonable solution to this problem.

REPLACEMENT HOUSING

One of the major obstacles to public housing homeownership has been the lack of resources to meet the one-for-one replacement requirement. In many parts of the country it would be appropriate for section 8 certificates and vouchers to be used for this purpose. The HOPE proposal provides \$250 million for rental assistance to cover operating expenses, relocation housing, and replacement housing. I am hopeful that these resources will facilitate homeownership conversions for those projects that have spent years battling regulatory standards and procedures.

CONCLUSION

As we all continue to wait for HUD's recommendations on the FHA program, I look forward to working with Secretary Kemp and Senators Riegle, Garn, and Cranston to develop housing legislation which will incorporate many of the concepts in HOPE with other housing initiatives which have broad support within Congress and the administration. Thank you, Mr. Chairman.

OPENING STATEMENT OF CHAIRMAN REIGLE

The CHAIRMAN. The committee will come to order.

We are pleased that the Secretary has arrived and I have a brief opening comment that I want to make. We have put some other statements in the record. I want to say for the other Senators who have come in, we have a rolling vote going on the bill that strikes a gold medal for Laurance Rockefeller and we will maintain that vote and keep it open during the course of the hearing this morning.

This morning the committee is pleased to hear from the Secretary of the Department of Housing and Urban Development, Jack Kemp, on the administration's proposal for housing legislation.

The affordable housing crisis in the United States I think is clear for all to see. We can walk down the streets of any major city in

our country and see the homeless wherever we look for them. It's estimated that some 730,000 Americans are homeless on any given night and between 1.3 million and 2 million people experience homelessness some time during the calendar year.

There are millions more that are only one paycheck or a personal crisis away from themselves becoming homeless and, of course, more and more the pattern we're seeing is that homelessness is striking families and it's striking single parents with children, and it is truly a problem of a size I think we have not seen since the 1930's.

An MIT housing analyst has projected that if present patterns persist that by the year 2003 we might have as many as 18 million Americans unable to find affordable housing.

Now the Housing Subcommittee has been working on comprehensive legislation for more than 2 years and I want to specifically commend Chairman Cranston and ranking Republican D'Amato for their leadership in this area and for their bipartisan authorship of S. 566, the National Affordable Housing Act.

There are now two major housing initiatives before the Senate, that proposal which I've just described, S. 566; and this morning Secretary Kemp will describe the administration's Homeownership and Opportunity for People Everywhere Act. These two bills are in many ways complementary and the committee has already begun the process of merging them into a single package.

Housing legislation is a key priority of the committee this year. Such legislation must address the spectrum of housing needs faced by homeless people, by low-income families, and also by first-time homebuyers. We want to make sure that young families and single people who want to acquire a home of their own find that something that is more within their reach rather than something that is moving away from them.

To do this, we must build upon public-private partnerships to expand the supply of affordable housing. The legislation that we are working on must create a strong low-income housing preservation program. It must encourage the conversion of public and assisted housing to tenant ownership where that is appropriate and feasible. And it must improve housing assistance in rural areas.

I think it must also provide affordable housing with supportive services with people with special needs such as our elderly and people in our society with disabilities.

It must also increase rental assistance provided to low-income tenants.

Secretary Kemp, we welcome you here this morning. It is essential that we continue to work closely together, as we have from the outset. You know our timetable. We want to mark up comprehensive housing legislation in the committee on May 2. So it gives us the window from today through May 2 to have the discussions that must go on, the give and take, to develop what I hope will be a workable and agreeable bipartisan package that the administration and the Congress here in the Senate can feel comfortable with.

We obviously can only do that with your active support and that of the administration. There are some shortfalls in the legislation that has been brought forward, as some of us would see it, so we

are going to want to work on those areas, but we want to do so in the most cooperative way possible.

I will be introducing by request the package today, together with Senator Garn and Senator Cranston and Senator D'Amato, so that we make it clear the feeling that we have of wanting to proceed together and see if we can't work out an approach that is generally acceptable.

I just want to finally say that I applaud many of the initiatives that you have taken personally since becoming Secretary and I very much look forward to your testimony this morning.

Let me yield to Senator Garn.

OPENING STATEMENT OF SENATOR GARN

Senator GARN. Thank you, Mr. Chairman.

I am pleased to welcome Secretary Kemp to the committee today as he introduces the administration's HOPE proposal. As you mentioned, Mr. Chairman, I will be joining you in introducing the legislative package, along with Senators Cranston and D'Amato before the day is over.

I am pleased to have the Secretary be able to describe in some detail the new directions for housing contained in his HOPE proposal.

The proposal is an ambitious initiative which establishes a foundation upon which Congress, working with the administration, can develop a responsible housing authorization bill this year. While members may have some disagreements over funding and policy, the thrust of the legislation embraces themes upon which we can all agree. Expanding homeownership opportunities for low and moderate-income families, providing supportive services with basic shelter assistance to the homeless, and resolving the prepayment problem to preserve low-income housing resources.

I certainly look forward to working with my colleagues and the administration to achieve these ideas and I agree with you, Mr. Chairman, that as legislative years go, they go by very rapidly, and so I am also very hopeful we can achieve your desire to have a markup in May. Otherwise, with an election year and we get into all of the end-of-the-session appropriation bills and conferences it becomes very difficult to pass authorizing legislation. So I am hopeful we can maintain that schedule before we get involved in all that morass of the end-of-the-year election year session.

The CHAIRMAN. Thank you very much, Senator Garn.

The chairman of the Housing Subcommittee, Senator Cranston.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Thank you, Don.

Mr. Secretary, I am delighted you are able to present the administration's housing proposal to the Senate today. Your determination and your hard work have brought the legislation to this very important milestone.

The Homeownership and Opportunity for People Everywhere, [HOPE] Act, incorporates ideas that you have strongly advocated for many, many years.

As you know, I have shared your desire to make sure that low-income and moderate-income Americans have greater opportunities for homeownership and management of their housing. So I assure you this committee will review your legislation with enthusiasm, looking for ways to build your suggestions into housing legislation that the committee will mark up on May 2.

For those reasons and others, I am delighted to join in introducing the bill by request.

Secretary KEMP. Thank you.

Senator CRANSTON. I believe the HOPE initiative ensures that the administration will be an active, contributing participant as the country seeks to meet our urgent need for more affordable housing. You have repeatedly said that you do not offer these proposals on a take-it-or-leave-it basis. You made clear your desire to work together with us on a bipartisan basis to achieve important housing legislation that deserves strong support from the administration, the Congress and the American people. That cooperative spirit has guided this committee over the past 3 years as you reach out to housing leaders across the country to refine the best ideas into sound legislation.

I look forward to working with you over the next few weeks to refine those ideas even further. Your desire to work with Congress is vastly helpful. I am convinced we have a rare opportunity, probably the best opportunity in several decades, to shape a fresh, effective national housing policy.

Yet the question is not, will we get a housing bill; the question is, will we get a good housing bill, a housing bill that we can be proud of? I believe a new housing bill must address the full range of our housing problems and the new housing legislation should meet several important standards.

First, I believe the bill should ensure the long-term financial strength of FHA. I am concerned that past policies have exposed FHA to unacceptable losses in the coming years. Some of the problems result from mismanagement under the previous administration. Some of the problems were created by the arbitrary nationwide ceiling on the size of FHA insured mortgages. Some of the problem was created by other elements of legislation that should be corrected.

I understand that the administration intends to offer major proposals on FHA after a report is received from Price Waterhouse. I urge you particularly to make sure the Senate has your recommendation in plenty of time before markup. So if you can make sure that Price Waterhouse acts swiftly, I think that will be very important.

Second, I believe a new housing bill should provide a permanent solution to the problem of prepayment. Your recommendations on this vital matter are very promising. However, we need to explore concerns that the homeownership transfers will not work in many markets without changes in tax policy. Congress will need your assistance to explore reasonable alternatives.

Third, I believe the bill should expand the supply of housing affordable to low-income and moderate-income Americans. Four million American families are living in substandard housing or are paying more than 50 percent of their income for rent. We are

losing low-cost housing at the rate of 1.5 million units each decade while the numbers of the poor are rising. Any responsible housing bill must help reduce the size of that problem.

Although tenant management and tenant ownership of low-income housing deserves support, national housing policy cannot be limited to transferring ownership of existing housing to current tenants. Less than one-third of the Americans who are eligible for housing assistance are now receiving it. We have to provide decent, affordable housing for those who do not now have it.

Imagine you are a sea captain and at the break of dawn you come upon a scene of a great shipwreck. You see that there are only enough lifeboats in the water to hold 500 people, but more than 1,000 people are struggling in the sea. Now what if someone ran up to you and said, "Sir, we need to do something. Let's help the people in the boats become boat owners."

I suspect that, instead, we would all want to do what we could to get more lifeboats out there for the poor souls who were drowning. Well, that has got to be the objective of a new housing bill as well. New legislation has got to help get more affordable housing out there for the people who desperately need it and that does not mean some simple-minded choice between vouchers and new production. We need a variety of approaches that meet the needs of widely different local housing conditions.

Fourth, the bill should build on the exciting new housing initiatives that have formed throughout the country. It should strengthen the housing partnerships involving States, communities, non-profit organizations and private industry that are finding better ways to meet the soaring need for low-income housing.

The bill should give States and local government flexibility to deal with local housing conditions and local housing markets that differ greatly throughout the country.

I am certain that we have the raw materials for good legislation that measures up to these important standards. Together, this committee and you, Jack, have the energy and commitment that we need to make a new national housing policy a reality. This is an exciting time to be working for affordable housing in our country. Many hurdles remain. But I am confident that, working together, redoubling our efforts, we will succeed in launching a new national housing policy that will improve the living conditions for millions of families in the years to come.

The CHAIRMAN. Thank you, Senator Cranston.

Senator D'Amato is the ranking Republican of the Housing Subcommittee. We have put your statement in the record at your request. Are there any other comments you want to make at this time?

Senator D'AMATO. Mr. Chairman, only that it's good to see the Secretary. I want to commend him. I am delighted to be able to be a cosponsor of this legislation and I am particularly delighted as it relates to those areas in which the bill expands housing ownership, the affordability, the opportunity to make this available to more people. I think that is the cornerstone of a sound housing program and I don't think that we can say enough about that and I want to commend the Secretary for bringing us to this point.

The CHAIRMAN. Very good.

Senator Sarbanes.

OPENING STATEMENT OF SENATOR SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman.

Secretary Kemp, we are very pleased to have you here. As you will recall from our days in the House, in order to save time when someone made a particularly perceptive statement with which we agreed, we would say, "I'd like to be associated with the comments of the gentleman or gentlelady, whoever they were; and I would like to be associated with the comments of the gentleman from California. I think Senator Cranston has made a very fine opening statement, both in detailing the problem—the number of low-income households that pay more than 50 percent of their income for rent has gone up, we've got elderly and handicapped without adequate housing, young people can't buy homes.

The number of homeless—in fact, there's a story in this morning's Baltimore Sun that I just want to quote very quickly. "Specially trained census takers will work from dusk tonight until dawn tomorrow to make the Census Bureau's first count of America's homeless." In other words, the problem has reached such proportions that we now, for the first time in the census since 1790, have deemed it necessary to make the count. Nationally, 15,000 census takers will count the homeless on "S" night, the shelter and street night.

So that's some dimension of the problem. I agree that the objectives must include preserving rental units, rehabilitating public housing, increasing the number of low-rent units, meeting the needs of the elderly and handicapped as well as the efforts to clean up HUD, which you have undertaken, and to increase homeownership.

The Baltimore Sun paper's Evening Sun in an editorial a while back said, "After 8 years of the Reagan administration slashing Federal housing funds on the one hand and stuffing their pockets with all they could get on the other, President Bush's new housing initiative is a welcome change. At the very least because it recognizes that the poor need more Federal help. But hope is not enough" and they then go on to detail how they think it needs to be strengthened and supplemented which some of my colleagues have alluded to here this morning.

I actually credit the fact that the administration has taken a somewhat different approach from its predecessor to you as the Secretary. I think you are genuinely concerned about the problem. The question now is, can your department and you particularly, working with the committee and the Congress, put together a program that's adequate.

So we are pleased this morning to have you here on the playing field, if I may use a reference out of your past. We are prepared to catch the pass if you are prepared to throw it, but we want to get a pass that will get us some distance downfield and not just up to or barely across the scrimmage line. In other words, we don't want to run this play just for that purpose. We want to make a good advance out of this thing.

I must say that if the tacklers down at OMB won't let you throw the pass, maybe we should throw it from here and you might evade them sufficiently that you can catch it. Maybe we can put this combination together one way or the other. There is obviously a desire here to try to work with you to fashion an important piece of housing legislation.

I am informed that this is the first time in about a decade that the national administration has appeared before the Senate Banking and Housing Committee to recommend significant, substantive housing legislation. I obviously feel that it needs to be developed to cover omissions, but I recognize that that development alone is significant and I credit you with having played a major part in bringing it about and we are ready to work at this with you.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Sarbanes.

Senator Mack.

Senator MACK. Thank you, Mr. Chairman. I have a prepared statement that I would like to have included in the record as well.

The CHAIRMAN. We will make it a part of the record.

OPENING REMARKS BY SENATOR MACK

Senator MACK. I would just take a moment or two to extend my welcome to Secretary Kemp. I think that when the President made the decision to ask Jack Kemp to be the next Secretary of HUD it was an indication of the administration's commitment to the poor and to housing in this country.

I don't think there's been a spokesman in years that has expressed his concern, his commitment and his compassion more than you have and I think that the comments that are being made here this morning are indicative of that.

I am pleased at the initiatives that you have included in the package, whether that's homeownership or resident management or enterprise zones or housing zones. There's no question we have a long way to go, but I think that the HOPE proposal is a strong, strong beginning and an indication of your willingness to make whatever modifications are necessary to move this form of legislation and these new initiatives forward is so important.

As a result of being on this committee—and this is really the first time in my 8 years in the Congress that I have had the opportunity to deal directly with housing issues—and I remember you saying to me, "Connie, if you are really going to have an understanding, you need to get out in the communities and talk to people, not just those of us here on this committee, but you need to talk to people who are running public housing authorities, such as Earl Phillips down in Liberty City or Liberty Square, and going beyond that and speaking with the residents in those communities." And what a great experience it has been for me to have had that opportunity. And I apologize to my colleague, Senator Graham, who's heard me say this before, but I think the one thing that I come away with after that 6 or 8 months is a recognition that while we spend too much time, frankly, talking about bricks and mortar and not enough time about the people that live in public housing and about the people who are desperately trying to

find a home they can afford. I think it's important and I think again your proposal helps us focus in on the recognition that we have to expand our horizon when it comes to dealing with this issue. It's more than putting up a building and debating how that should be done. It's also providing the assistance, the funding if you will, the direction, to those individuals who live in public housing to give them the opportunity so that they can move forward.

I am reminded of one visit into Melbourne with a fellow by the name of Eddie Taylor and as we opened the door to one of these what should have been boarded-up units, neither one of us really knowing what we were going to see as we opened that door, and as I turned around and looked out into the corridor or the space between several buildings, there was a little boy about 2 or 3 years old walking away from us and Eddie said to me, "Senator, you need to understand that that little boy, as he looks to his right and to his left, the only thing he sees is this dilapidated, incredibly negative environment in which he is living."

Our responsibility is to try to change that environment and I think that's exactly what you have done in this proposal. So I welcome you and look forward to your testimony.

The CHAIRMAN. Thank you, Senator Mack.

[The complete prepared statement of Senator Mack follows:]

CONNIE MACK
FLORIDA

Connie Mack

United States Senate

WASHINGTON, DC 20510

SENATOR CONNIE MACK OPENING STATEMENT

SENATE BANKING COMMITTEE HEARING ON THE BUSH ADMINISTRATION'S HOUSING PROPOSAL March 20, 1990

I AM DELIGHTED TO HAVE THE OPPORTUNITY TO WELCOME MY GOOD FRIEND SECRETARY JACK KEMP TO TESTIFY BEFORE THE BANKING COMMITTEE. I AM ESPECIALLY ENCOURAGED BY THIS ADMINISTRATION'S RESPONSIVENESS TO THE HOUSING ISSUE BEGINNING WITH PRESIDENT BUSH'S DECISION TO INVITE JACK KEMP TO BE THE SECRETARY OF THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

AS A NEWLY ELECTED MEMBER OF THE SENATE, I WAS ASKED TO SIT ON THE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS. NOT LONG AGO, I WAS APPOINTED THE RANKING REPUBLICAN MEMBER OF A NEWLY FORMED SUBCOMMITTEE TO INVESTIGATE WHY THE INTENT OF FEDERAL HOUSING POLICY WAS NOT BEING IMPLEMENTED AT HUD.

DURING MY TENURE AS A CONGRESSMAN, MY COMMITTEE ASSIGNMENTS DID NOT REQUIRE ME TO REALLY FOCUS ON THE ISSUE OF HOUSING. BUT I SET OUT TO EDUCATE MYSELF. DURING MY VISITS TO VARIOUS HOUSING SITES AND DISCUSSIONS WITH HOUSING EXPERTS, I HAD MANY QUESTIONS.

ARE THERE WAITING LISTS? HOW LONG AND WHY? ARE THERE DRUG PROBLEMS? IS THERE OVERCROWDING? WHAT IS THE RATE OF RENT COLLECTIONS? ARE RESIDENTS SATISFIED? IS THERE ADEQUATE HOUSING FOR EVERYONE THAT NEEDS IT? WHAT IS THE CONDITION OF RURAL HOUSING VERSUS URBAN HOUSING? IS RENTAL ASSISTANCE MORE EFFECTIVE THAN FEDERAL CONSTRUCTION PROGRAMS? DOES CURRENT NATIONAL HOUSING POLICY PERPETUATE AND CONCENTRATE POVERTY? WHAT CAN BE DONE TO ENCOURAGE PEOPLE TO BECOME SELF-SUFFICIENT?

ALTHOUGH I STILL HAVE MANY QUESTIONS, MY VISITS AND DISCUSSIONS WITH HOUSING EXPERTS HAVE HELPED ME GET A GENERAL IDEA OF THE EFFECTIVENESS OF FEDERAL HOUSING POLICY.

IF I HAD TO POINT TO ONE THING I LEARNED FROM THIS PROCESS, IT WOULD BE THIS: FEDERAL HOUSING POLICY MUST INTEGRATE A FOCUS ON HUMAN BEINGS, RATHER THAN STRICTLY ON BRICKS AND MORTAR. IF WE DON'T DO SOMETHING TO HELP LIFT LOW INCOME RESIDENTS FROM THEIR POOR SELF-ESTEEM AND REMOVE THEM FROM POCKETS OF

CONCENTRATED AND PERPETUAL POVERTY, NATIONAL HOUSING POLICY WILL HAVE FAILED.

EVERYONE KNOWS OUR HOUSING POLICY HAS MANY FLAWS AND HAS A GREAT DEAL OF ROOM FOR IMPROVEMENT. SOME PROGRAMS WORK, SOME NEED MODIFICATION AND MAYBE SOME SHOULD BE ELIMINATED.

SINCE THE 1930'S, THE FEDERAL GOVERNMENT HAS RESPONDED TO HOUSING PROBLEMS BY ADDING TO THE SUPPLY THROUGH CONSTRUCTION OF PUBLIC HOUSING. THE PATERNALISTIC POSTURE THE FEDERAL GOVERNMENT HAS TAKEN IN THIS REGARD HAS SUFFOCATED THE GROWTH POTENTIAL OF PUBLIC HOUSING RESIDENTS. WHEN ONE SEES GENERATIONS OF FAMILIES IN PUBLIC HOUSING, ONE HAS TO CONCLUDE SOMETHING IS WRONG.

INDEED, THE NATION'S PUBLIC HOUSING ISOLATES AND CONCENTRATES THE POOR, ENCOURAGES DRUG USE AND PERPETUATES THE CYCLE OF POVERTY. PUBLIC HOUSING HAS BECOME A HAVEN FOR DRUG PUSHERS. DURING ONE OF MY VISITS TO PUBLIC HOUSING IN FLORIDA, I ACTUALLY WITNESSED A DRUG DEAL. DRUG GANGS TERRORIZE RESIDENTS AND, IN SOME CASES, VIRTUALLY RUN THE PROJECTS. OUR POLICE HAVEN'T BEEN ABLE TO CONTROL THE CRIME RESULTING FROM DRUGS. HOW CAN WE EXPECT LOCAL PUBLIC HOUSING AUTHORITIES TO KEEP DRUGS OUT OF PUBLIC HOUSING?

AS A RESULT THOUSANDS OF THE NATION'S PUBLIC HOUSING UNITS ARE VACANT OR ABANDONED. AT THE SAME TIME, PARADOXICALLY, THOUSANDS OF FAMILIES ARE ON WAITING LISTS THROUGHOUT THE COUNTRY.

REAL CHANGES IN OUR HOUSING POLICY SHOULD INCLUDE A FOCUS ON POLICIES WHICH EMPOWER THE POOR. THE HOPE PROPOSAL OFFERS AN EXCELLENT FRAMEWORK FOR ACHIEVING THIS. I APPLAUD THE SECRETARY'S INITIATIVES ON RESIDENT MANAGEMENT AND OWNERSHIP, ENTERPRISE ZONES AND HOUSING ZONES.

I ALSO THINK WE SHOULD LOOK INTO AN EXPANDED USE OF VOUCHERS. I SPOKE WITH SEVERAL PUBLIC HOUSING OFFICIALS IN FLORIDA WHO SAID THEY COULD HELP MORE PEOPLE IF THEY HAD MORE VOUCHERS. THE FREEDOM DIRECT RENTAL ASSISTANCE AFFORDS HELPS RESIDENTS MOVE OUT OF CONCENTRATIONS OF POVERTY TO AREAS WITH BETTER JOB AND EDUCATION OPPORTUNITIES.

ON THE ISSUE OF AFFORDABILITY, I BELIEVE AN EXCELLENT WAY TO START TO REDUCE THE COST OF HOUSING IS TO REDUCE THE AMOUNT OF GOVERNMENT REGULATION IN HOUSING.

INSTEAD OF CREATING MINIMUM LIVING STANDARDS FOR EVERYONE, OUR HOUSING REGULATIONS MAY ACTUALLY BE PUTTING DECENT HOUSING BEYOND THE REACH OF ORDINARY HOMEOWNERS. WHILE I VIEW HIGH STANDARDS OF SAFETY AND HEALTH AS A NECESSITY, I AM CONCERNED WITH STUDIES THAT SHOW HOW MANY OF THESE REGULATIONS HAVE DRIVEN UP THE COST OF HOUSING TO THE POINT OF PUSHING POTENTIAL HOMEOWNERS OUT OF THE MARKET.

THE COMBINED EFFECT OF THESE REGULATIONS, SUCH AS ZONING LAWS, BUILDING CODES, GROWTH CONTROLS, IMPACT FEES AND LAND USE RESTRICTIONS, MAY ADD AS MUCH AS 35 PERCENT TO THE COST OF A NEW HOME. ONE EXPERT, ANTHONY DOWNS OF THE BROOKINGS INSTITUTE, SAID THAT "75 PERCENT OF THE COST OF HOUSING IS DUE TO REQUIREMENTS IN EXCESS OF THE MINIMUM NEEDED FOR HEALTH AND SAFETY."

AMERICA'S HOUSING POLICY SHOULD BE DESIGNED TO HELP THOSE WHO NEED IT MOST. THE HUD SCANDAL IS SHOWING THAT BILLIONS OF DOLLARS INTENDED FOR THE POOR HAVE GONE TO EVERYONE EXCEPT THE POOR. THIS IS OUTRAGEOUS. BUT IT COULD BE SYMPTOMATIC OF FLAWED POLICIES THAT INVITE THIS SORT OF ABUSE.

FEDERAL HOUSING POLICY WILL NEVER OPERATE AT ITS OPTIMAL LEVEL UNTIL WE ACKNOWLEDGE ITS FLAWS. I BELIEVE IT IS THE TIME WE RETHINK OUR HOUSING POLICIES. THE HOPE PLAN IS A GOOD INITIAL STEP IN THIS PROCESS.

Senator Bryan.

Senator BRYAN. Thank you, Mr. Chairman.

I, too, join my colleagues in welcoming you to the hearing this morning, Mr. Secretary. I have a statement and ask that it be made part of the record.

The CHAIRMAN. We will make that statement a part of the record. Thank you, Senator Bryan.

OPENING STATEMENT OF SENATOR RICHARD BRYAN

Senator BRYAN. Mr. Chairman, I commend you for holding this hearing today and I look forward to the testimony of our distinguished witness, the Secretary of Housing and Urban Development, Jack Kemp.

Mr. Chairman, we all agree that the plight of the homeless is one of America's greatest domestic challenges. As a report of the National Low Income Housing Preservation Commission reported in 1988: The consequences of the potential loss of subsidized units will most severely affect tenants who cannot afford shelter without Government assistance. Seventy percent of the tenants living in the inventory studied have incomes below 50 percent of the median for their area. One-fifth of the tenants are in properties built for the elderly. A quarter of the households have four or more members. Since the early 1980's, demand for low rent housing has outstripped supply.

A recent survey released in December by the U.S. Conference of Mayors said that 26 percent of all the homeless are families. With estimates of a homeless population at between 300,000 and 3 million, it is important for the Congress and the executive branch to work together to solve this problem.

Affordable housing is the only chance we have to arrest the dramatic rise in homelessness. Secretary Kemp we are anxious to hear some of your ideas to resolve this crisis, and we are anxious to create a bipartisan solution to house our countries' neediest citizens.

The CHAIRMAN. Senator Pressler.

Senator PRESSLER. Mr. Chairman, I have a statement to be made a part of the record. I do have a question for the Secretary which I am sure he will cover in his testimony. The National Governors Association raised a question of how this will affect rural areas of the country and I am sure that will be in his opening statement.

I also want to commend the Secretary and his team because I think he's assembled one of the best teams in government, and I look forward to working with him on this and other legislation.

The CHAIRMAN. Thank you, Senator Pressler.

[The complete prepared statement of Senator Pressler follows:]

OPENING STATEMENT BY SENATOR LARRY PRESSLER

Senator PRESSLER. Thank you. Mr. Chairman, I first wish to commend you for scheduling this hearing on the administration's HOPE proposal. I trust that it is a harbinger of bringing together proposed legislation that will greatly benefit our Nation in both urban and rural housing and community development.

It is a great pleasure to join in welcoming back our distinguished Secretary of Housing and Urban Development, Jack Kemp. He has done a truly outstanding job in cleaning up the mess at HUD, in selecting a first-rate team to work with him in this endeavor, and in proposing legislative initiatives such as we have before us today. The HUD reform legislation, which was enacted last November, speaks eloquently of his foresight and leadership.

I am sure that most of us would agree with the objectives of the HOPE proposal—to expand homeownership and provide new affordable housing opportunities for low income families, to provide shelter plus care for the homeless, and to create jobs and economic opportunities in distressed communities. I am concerned, however, that there appears to be an overemphasis upon rehabilitating distressed properties and making them available for public housing residents, both in single-family units and multifamily developments.

For the most part, there are few units of public housing in my home State of South Dakota that would qualify for HOPE assistance. Our State housing authority advises me we have no public housing units not decent for occupancy and no distressed properties in HUD's portfolio. And what I wish to stress here is that there is no alternative provided in the proposed legislation for States and local communities to utilize the assistance for other housing and community needs. These are concerns, Mr. Chairman, that I feel must be dealt with as the HOPE proposal is taken up in conjunction with S. 566—the National Affordable Housing Act.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dixon.

Senator DIXON. Thank you, Mr. Chairman.

I appreciate your placing my entire statement in the record. I just wanted to make a couple of points before we hear from the Secretary.

The first point I want to make, Mr. Chairman, is that I congratulate the Secretary on his efforts. We might not be in complete agreement about what this bill ought to look like, Mr. Chairman, but I can honestly say in a public place that this is the first Secretary in any administration since I came here in 1980 that's gone to the trouble of talking to me on innumerable occasions about his views and his interest in passing housing legislation this year. I think that is a great credit to the Secretary and I want to be certainly one on this side that expresses his profound admiration for the efforts the Secretary is making.

The second point I want to make, Mr. Chairman, is that I was here 7 years in the Senate and on this committee before we ever passed a housing bill. Nothing has been cut more dramatically in the time that I have been here under these administrations than housing, and I think it is a proper commitment of this committee to mark up legislation this year and pass legislation that will signify our support for substantial improvements in what we do for housing in this country.

I want to express my appreciation to the Secretary for his support of tenant management legislation. As you know, the housing bill we passed in 1987 had tenant management provisions in it that I sponsored. The distinguished Secretary, as a Member of the Con-

gress in the House, sponsored similar legislation. It has worked well I think. I am proud of it and I am sure he is.

I want to finally say, Mr. Chairman, that as I understand it, you and the chairman of the Housing Subcommittee on our side and the ranking member and the ranking member of the Housing Subcommittee on the other side are sponsoring the administration's legislation by request. My understanding is it's the feeling of the committee that we ought to let this whole process unfold and then see what kind of an ultimate bill we can arrive at here in the committee, and I endorse that concept. I simply want to say to the Secretary that I will do all I can in this committee to see to it that we get the kind of a bill here that all sides can agree upon so we can pass strong housing legislation and send it to the President and with the support of this Secretary see that that legislation is signed. I thank him for his efforts and we will work assiduously toward that end in this committee.

The CHAIRMAN. Thank you, Senator Dixon.
Senator Gramm.

OPENING STATEMENT OF SENATOR GRAMM

Senator GRAMM. Thank you, Mr. Chairman.

Mr. Chairman, in the past when we've talked about housing legislation, almost always the focus has been on how much money we were going to spend and I think that's natural and it's going to continue, but I think in part because of the leadership of Secretary Kemp, we are now going to have a major focus of attention on whether we are getting our money's worth or not.

Jack, I would just like to say that I congratulate you on what you have done. If our current public housing program was really a model for efficiency in providing housing, we would have torn down the Berlin wall from our side to have gotten into Eastern Europe to share its full benefits. It was not the efficient model and they tore down the Berlin wall from their side to get away from it.

I would just like to say that your initiatives, bringing together really innovative ideas that are based on principles that clearly work, principles of people who live in a public housing community—and I've gotten away from saying project by the way, Jack, and I find people in my state like it—people living in a public housing community having a say over who lives there and the conditions of housing is a simple, basic American idea, but for public housing it's revolutionary.

The idea of giving people some hope of buying their own housing unit and converting a government housing project—and I say that in a negative sense—into a neighborhood, into a community, and into homeownership, is a very powerful idea and it's one that I strongly support.

So I want to congratulate you. I want to tell you that I am going to support every one of these reforms. I think they are vitally important and it is very important that we not let traditional inertia and the special interest of the bureaucracy override the interest of the people that we are trying to help. If there's anything that frustrates me about government, it is that government ultimately becomes its own constituency. And I see it every day that we run gov-

ernment not to benefit the people we are supposed to be benefiting but to benefit the people who are running the Government.

Finally, let me say I want you to get on with these reforms. I don't want the Soviet Union to pass us by. I don't want us to be the last country on earth that is still using a system which all of mankind with one voice rejects.

So I wish you God speed in these efforts.

Secretary KEMP. Thank you.

The CHAIRMAN. Thank you, Senator Gramm.

Senator Graham of Florida, who has been heading up our HUD investigative effort, we would be pleased to hear from you now.

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Chairman, I have a statement which I would like to submit.

The CHAIRMAN. We will make it part of the record. I also have a statement from Senator Dodd for insertion in the record.

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. First, I want say how much I appreciate the Secretary's tremendous advocacy on behalf of housing and community development. I think this is a very constructive partnership that we are entering which will be very beneficial to America and particularly to those who look to these programs for adequate housing.

Last Friday, Senator Mack and I held a hearing in Tampa on housing and yesterday Congressman Shaw and I were in Fort Lauderdale for a hearing on transportation. There was a theme that ran through both hearings which disturbed me and that was the theme of increasing cynicism and skepticism as to whether the Federal Government was able to do anything right, whether it could construct a housing program or a transportation program actually in a way that people felt met basic standards of efficiency.

So I believe the challenge that we have today is not just to assist in meeting the kind of housing needs that several of my colleagues have documented, but even more fundamentally, whether government—and especially the Federal Government—can effectively diagnose a circumstance, identify the right problems, and then direct its energy and resources toward the resolution of those problems.

If we are successful, it will not only provide adequate housing in America but also effectively provide competent government to America.

Thank you.

[The complete prepared statement of Senator Graham follows:]

PREPARED STATEMENT OF SENATOR GRAHAM

Thank you Mr. Chairman and welcome Secretary Kemp.

The housing industry in this Nation has been through rough times recently and is now at a critical stage in its development.

The savings and loan crisis and bailout rocked the industry as did the still unfolding events at the Department of Housing and Urban Development.

As a result, we are now reevaluating the Federal Government's housing policies and implementing much needed reforms.

In November, Congress passed a major reform bill that will give you, Mr. Secretary, the tools to continue your substantial efforts to return HUD to its mission of providing "a decent home and suitable living environment for all Americans."

In May, this committee will mark up two major housing initiatives, the National Affordable Housing Act, and President Bush's proposal, Homeownership and Opportunity for People Everywhere (HOPE).

Last Friday in Tampa, my colleague from Florida, Senator Mack, and I had the opportunity to hear comments from a distinguished panel of Florida housing professionals on both bills. Their analysis and suggestions were both frank and constructive and provided me with a framework from which to begin our work in this committee.

Today, we look forward to hearing from you, Mr. Secretary, the details of the HOPE package. And I look forward to working closely with you, Chairman Riegle and the other distinguished members of this panel to produce a housing bill that effectively puts Federal housing policy back on track for the 1990's.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Jack, I join my Banking Committee colleagues in welcoming you here today. I must say that it is a refreshing departure from recent years simply to have the Secretary of HUD here in this room. To know, at long last, that the members of this committee and the administration are engaged in talking is not, by recent standards, an insignificant development. Today, we are really exchanging ideas about the crisis of housing in this country and the need to respond to that crisis in an effective and expeditious manner. I look forward to hearing more about the administration's "HOPE"—Homeownership and Opportunity for People Everywhere—initiative. Mr. Secretary, I thank you for your personal contribution toward getting the rusty wheels of discussion moving again between the Department of Housing and Urban Development and the Congress.

It wouldn't be a bad idea for all of us to pledge that dialog and communication become, from here on in, watchwords that we assume as we work to reforge a national housing policy—not concepts that startle us, because we have forgotten the simple clarify of their purpose.

The history of housing policy in this country is all too clear: We will be unable to meet the challenge of our Nation's housing crisis unless the administration, the Congress, the Democrats, the Republicans, the broad coalition of housing advocates and experts across the country are engaged in real and substantive dialog. There is no other way that we can meet the housing needs of Americans.

The administration's HOPE proposal is a welcome complement to the National Affordable Housing Act and its HOPE proposal—the bipartisan product of 3 long years of work for this committee. Like the HOPE and precursor Housing Grant Action Program [GAP] legislation that Al D'Amato and I introduced last year, the HOPE proposal places central focus on forging new partnerships with States, localities and nonprofits to produce both rental and homeownership opportunities for low- and moderate-income Americans.

With all of its positive focus and discussive impact, I do, however, have some concerns about the HOPE proposal. I'd like to follow up, Jack, with a few questions.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Graham.
Senator Heinz.

Senator HEINZ. Mr. Chairman, I would ask unanimous consent that my full statement be entered in the record.

I just want to say that 3 weeks ago yesterday, Jack Kemp and his staff and I visited two areas near Pittsburgh, PA—McKeesport on the north side where we, together with at least one person in the crowd, Bob Woodson, visited a remarkable institution in McKeesport called Housing Opportunities, Inc., which demonstrated that with just a little bit of care and thought and local initiative and innovation and involvement of people that what might be considered utterly hopeless situations where somebody had lost their job and couldn't seem to hold things together, would otherwise lose their house in one case, or in another, a first-time homebuyer, that what is really important is not throwing a lot of money at the problem, but throwing a lot of energy and concern and thought at the problem.

Jack, I know your proposals have gotten some criticism for not coming up with enough money, innovative as they are, but I would suggest anybody who is worried about the money to just take a look around at some of the tremendous achievements that are being made without any real Federal money at all. That gives me real hope. I commend you, Jack.

STATEMENT OF SENATOR HEINZ

Senator HEINZ. Mr. Chairman, I am pleased to be here today to join in welcoming Secretary Kemp to the Banking Committee. Clearly, housing looms as one of the most ominous problems we have in America today.

However, the problem, while large, centers primarily on affordability rather than supply. Somewhere between 50,000 and 70,000 single family homes are up for sale—and vacant—every day. In the rental area, daily, there are about 1 million single family residences and about 1.4 million apartment units vacant.

The greatest part of the problem is not too little housing; rather, the housing available to people is often beyond their means.

The legislation presented today by Secretary Kemp not only attempts to help the homeless find permanent housing but also will assist low and moderate income and first time homebuyers find decent and affordable housing. Further, it is my understanding that this HOPE proposal will induce State, city, and private initiatives through the use of Federal inducements and incentives—not big new Federal programs.

This proposal also allows for and in fact encourages States, cities, and town to solve many of our Nation's housing problems through effective and efficient rehabilitation programs, public/private partnerships and local initiatives.

The proposal clearly recognizes that it is these types of initiatives which not only create housing but also create the sense of community which must exist if these programs are to have an ongoing effect on the lives of the persons they touch. This proposal provides an aggressive, comprehensive, and innovative approach to the Nation's housing crisis.

Mr. Chairman, I intend to play an active role in perfecting and passing this legislation. Secretary Kemp has activated the re-

sources in this country that are capable of not only providing ideas but also solutions to our housing crisis.

I look forward to working with you, Jack, and the administration to assure decent and affordable housing for all Americans.

The CHAIRMAN. I want to make just a couple observations before we call on the Secretary.

First of all, we have established a quorum this morning and that will enable us to report out the legislation that I referenced in the very beginning.

Second, I want to call attention to the very fine turnout of Senators this morning and I think it emphasizes the great importance that we as a committee attach to this subject.

Finally, I want to say on a personal note with respect to the comment that Senator Mack made about the little 3-year-old child in a public housing project in Florida, that all of us have seen situations like that. I think there are countless hundreds of thousands and millions of children in our country and their parents who are really depending on us to craft some kind of a policy that enables them to live decently, to be out of the cold and not living in cardboard boxes or under bridges, but in decent housing that's safe and secure and where they have some opportunity to be all that God intended for them to be in terms of their life and their potential.

I think if our society and our country doesn't show that it cares about each and every person that we can't expect those individuals who are on the outside looking in to necessarily have the kind of feeling toward society or our country that we want them to be able to have.

So we've got a big job to do here and I say all that to get back to the bipartisanship theme. This committee has worked on a bipartisan basis since I've become the chairman and we have done so on the savings and loan reform package. We were able to work together on that. We've worked together on a number of other things. I am determined that, insofar as it's possible—and I believe it is—for us to craft a package on that basis here, that that should be our goal and that's clearly my intention. Everybody is going to have to move some. OMB is going to have to move some and we're going to have to move some on this committee on one side of the aisle or the other.

But I think we are capable of doing that and I think in the end we must do that and I think if we all start out off that premise, if we can generally support that idea, we can hit our timetables and we can put together a program that does have some novel approaches. It obviously can't be built on thin air. There have to be resources because you can't get things done without resources. So good ideas, different ideas and sufficient resources are really the combination that we've got to have here.

But my intention is to see us do this job, Mr. Secretary, and if we continue to work together, everybody on this committee in a teamwork fashion, I think we can hit these timetables and that's our goal.

Now we would like to hear from you.

**STATEMENT OF JACK KEMP, SECRETARY, DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT**

Secretary KEMP. First of all, Mr. Chairman, I have been sitting here finding myself in the position of nodding almost to 95 percent of what has been said today and, if my friends on the right will let me for just a moment, I am particularly pleased with the tremendous bipartisanship that has been evidenced by the comments, and by the desire of this committee to move forward on housing legislation this year. I share the sense of urgency. I think I have had an opportunity, although I have yet to be in a couple of the States represented around this forum, I have been I think in just about every State represented by the distinguished Senators on both sides of the aisle and if I haven't been there yet—Senator Bryan, I will be in Nevada and in South Dakota.

But I want to thank you. It doesn't go without saying. It needs to be said how much I appreciate the tremendous cooperation and sense of progress that is felt in this committee. I want to say it up front, Mr. Chairman. You have greeted every single effort that we have made to clean up HUD, to reform it, to get it on the right track, to get housing legislation out, and I want to applaud you and your colleagues and also thank the good will that is manifest in so many of the opening remarks.

Second, I want to say to Senator Sarbanes, who used a metaphor with which I am vaguely familiar, throwing passes on a football field. I won't beat this to death, Senator, but sometimes the quarterback, which I like to think I still am—I like to think that a quarterback can oftentimes throw a very short pass and the results turn out to be quite productive. I think of the 49'ers, I'm a big fan of Joe Montana and I remember several times him throwing a 2 or 3 yard pass to Rathman or Roger Craig or Jerry Rice and them going all the way for the touchdowns.

So let's not discount the possibility that a good idea can be expanded upon by this Congress and that we are not running up against OMB. I can tell you they are not out there to be the other team and to try to prevent us from achieving our goal. They have been very cooperative.

There will be a debate over money. There ought to be a debate over money. It's been a long time in this country since we had the type of debate that suggested that it is not just the Federal dollar alone, it's how we leverage it, how we account for it, how we incentivize this great private system and nonprofit system. And Senator Gramm is correct. It is ironic that at the very moment at which we are excited about pushing legislation in the United States of America, the whole world is trying to find ways to move toward private markets, toward private property, toward the rule of law, toward incentives and rewards. I come before this committee as someone who does not believe in the perpetuity of poverty, does not believe there is nothing we can do, and I hear it both from the left and the right, that we ought to just give up, throw up our hands in despair, and I don't have that sense of resignation, as you know, Mr. Chairman.

I appreciate what you said about the good shepherd model of politics because this country cannot be a model for the world of de-

mocracy by letting people in our own Third World communities—and I don't use "Third World" in a pejorative sense or a negative sense but in the case of underdevelopment and despair and lack of opportunity—we could look at some of our own neighborhoods and some of our own communities as not only being neglected but being smothered in terms of responding to the rewards that if they were there I believe could provide much of the answer to this vexing, indeed so-called intractable problem.

So I come at this with not despair and resignation, but optimism and hope. I come with a tremendous sense that the people I've met in the inner-cities of America, rural and urban, are a resource and potential waiting to be tapped. And that we would do ourselves and the country and the world a great benefit by involving them this time in a war on poverty that includes them as a resource and potential instead of looking at people as a drain on resources or looking at people as simply a ward of the state.

I was moved the other day by Bill Raspberry of the Washington Post reminding us how you can influence attitudes and behavior among people by giving them a chance to own assets. I would have used property, but he used assets. What is this country but a chance for people to get a stake in the system?

So HOPE is not designed to be a cure-all, I say to my friends, but it is a chance to not only get on the ballpark and on the playing field, metaphorically speaking, but to move toward what you want done. My enthusiasm for my job is predicated upon the willingness of both sides of the aisle to find a bipartisan synthesis at this moment of electricity in the world, and I think tremendous potential of our inner-cities.

This is not Kemp's plan and President Bush would be the first to admit that this is not anybody's personal, private proprietary right. We have taken ideas of the Rouse-Maxwell report and we've taken ideas out of Cranston-D'Amato, and we're taken some ideas out of Senator Mitchell and Jack Danforth's outstanding study of the low-income housing tax credit and the availability of tax policy as a way to incentivize rehabilitation and construction. We have taken ideas—the enterprise zone bill I have never attributed to myself. I got that from working with many of you in the Congress and ultimately it started with Gov. Louis Menoz Morin, the founder of Operation Bootstrap on the island of Puerto Rico. He happened to be a great admirer of Franklin Roosevelt. I don't know if Republicans are supposed to say those things, but—

Senator SARBANES. Reagan said it all the time.

Secretary KEMP. Well, he didn't do it, nor would you quote Abraham Lincoln, out of a sense of meanness. He did it out of a genuine sense that there are times in which all of us have to walk away from our cherished orthodoxies and find ways of reaching synthesis.

I think, Don, if I could just belabor it for a second longer, I think on these issues the American people demand it, they want it, there's a lot of good will out there and I think we can find that synthesis, if you will.

Last, I approach this position from the idea that people are not only a resource, but they will respond to the right reward. I don't know if you saw the Wall Street Journal 2 days ago. A woman, I

think in a public housing community in Milwaukee, WI, had saved to send her 8-year-old daughter to college. The woman had never been able to go to college. She did what most mothers want to do for their children—saved to send her 8-year-old daughter to college. And like the story you told, Connie, she ran into the frustration of treating her in a smothering fashion because when she rose above the AFDC limits on her bank account or her checking account, when she got up to \$3,000 saving nickels, dimes, pennies and dollars by scrimping and saving to send that daughter to college, and they fined her \$15,000 for saving \$3,000. They couldn't get the \$15,000 so they went back and just took the \$3,000. In my view, that's a 100 percent tax on savings.

So we have taught her that saving is wrong, spending is right, and the bottom of the Wall Street Journal article says she now spends every single penny she can as soon as she gets it so she doesn't violate some theoretical belief. I think that's absurd. I think it's elitist. I think it's shaping attitudes and behaviors that are totally the opposite of what we would expect midstream Americans to do and I want to say, as I conclude this opening comment, that I think the highest taxes in America are paid not by any of us or any entrepreneur or any wealthy person. The highest taxes in the United States of America are paid by low-income families. Low-income people in this country live in a condition in which the ultimate tax is being paid—a tax that frustrates, that smothers their hopes and dreams and aspirations, and I think unlocking that has got to be the key to however we move forward on housing policy.

So I apologize. I vowed I wouldn't start with a statement, but I've been so inspired, Don and Alan and Jake and all of you, by going around the country and visiting and meeting people. A couple of them are here today. John, they were with you and me in Pittsburgh. Harriet Henson, a young woman who's seated in the audience who formed an organization, the Northside Tenants Reorganization Organization. She doesn't like to be called an organization or reorganization. But that's in Pittsburgh and, Mr. Chairman, as you and I saw in Michigan, they are indeed, with incredible resources and intelligence and entrepreneurial skills, they are rebuilding a place called Brighton Place where they have taken drug dealers and users out of boarded-up buildings and turned them into day care centers and laundromats. We need to encourage that all over this country.

So with that in mind, let me just say I believe that we have presented a budget that is responsible and prudent. It meets some of the goals of our budget constraints, but it also can unlock and unleash and, in my view, incentivize much more in the private sector, and that is simply something that has to be done, as well as working with the nonprofits.

Thanks for your introduction of the bill. As I said, we have drawn upon a wide variety of ideas and studies and I salute Rouse and Maxwell and all of the efforts that have been made by some of the leaders of this committee who have encouraged a debate over national housing policy. It's long overdue. I plan to work with you, Mr. Chairman. I will be here every single day if you need me to get this towards that ultimate goal, which is to stand up and see Presi-

dent Bush sign the housing and homeownership opportunities and community and economic development legislation.

You have expressed a lot of interest in first-time homebuyers, young families just starting out. Everything we have done at FHA in terms of reform, Mr. Chairman, is aimed at getting FHA back into the business that it was designed to do—help low-income and moderate-income people and first-time homebuyers get that white picket fence, that piece of the rock, that ultimate American dream that we now have learned recently is Chinese and South African and Eastern European and it pretty much is a universal dream, as you pointed out in your statements.

So FHA is I think sounder. We see great challenges. I look forward to working with this committee to make sure that the trust fund is prudent and that we undertake our fiduciary responsibility to make sure it does what it was supposed to do and not build golf courses and engage in activities that weakened it. So that's my pledge and we will be back with this committee as soon as that study is done by Price Waterhouse.

The problems of HUD I don't need to go back into, but you have been most cooperative. I have really felt good about the changes that have been made, getting HUD out of the business that it was not designed to do and back into being an agent and a tool that can be used to combat poverty and homelessness and the type of despair that we have seen in so many of these communities.

I do want to make one point early on in my remarks, Mr. Chairman. One lesson that we have learned through these problems—and this is not meant in a pejorative, but it is a lesson that I have learned and I think we have to learn from history. Hegel at one time said the only thing people learn from history is that no one has ever learned anything from history. We must learn from the history of the abuses and the poisons and flaws of HUD.

One is that noble intentions sometimes have unintended and counterproductive and indeed very expensive consequence. Time after time, program after program, housing developers or well-connected consultants were able to extract huge benefits from HUD for construction or rehabilitating or maintenance of properties, benefits which all too often resulted in large profits for themselves with little direct benefit to those in need.

We know from that past experience with subsidized housing construction programs that at least a third of the benefit went to the developer, the syndicator, lawyers, instead of to the poor people. I would say higher. But we learn, Mr. Chairman, that the layering of the tax credit with section 8 subsidies in some instances, all too often, has led to incredible windfall profits for the developer or the owner of the project, and at the same time the properties they owned came to symbolize the absence of hope and opportunity.

Whatever we do here, no matter what the debate, I think we—and you have already said it, Mr. Chairman—the lodestar, the guidepost of all our deliberations ought to be to recognize who our clients are—people, low-income people, the people themselves, not any other constituency. Then we want to partner with a lot of people and be a good partner, but we want to remember that the noble goal that we have of helping low-income people requires that we do things in their interest and not in the interest of those who

in all too many cases have ripped off low-income people and left them living in conditions that are uninhabitable and worse.

I don't believe in throwing up my hands in despair. I haven't done that about public housing because I have seen a renaissance going on in public housing that is incredible and, Alan, you and I were in Chicago and I've been in Baltimore with Paul Sarbanes and Barbara Mikulski, Boston at Bromley Heath, Liberty Square, and Liberty City, with Senator Cranston at La Strata Courts with Alicia Rodriguez, a young Mexican-American woman who is the resident manager of La Strata Courts, and the stories and the experiences are so beautiful that they have absolutely inspired me to redouble my efforts to push forward on the idea that has begun to be expressed in our 1987 act and hopefully in 1990, which is that residents themselves must be part of the solution in organizing, managing, recapturing, rehabilitating and leading to a renaissance in public housing because we don't want to end up throwing our hands up in despair and just say, "Well, blow it up, like we did at Pruittiggo in 1972 or 1973." I just am not going to be a Secretary that blows up housing. I don't want to demolish housing. I want to repair and rehabilitate and restructure and lead a renaissance, along with the men and women of this committee whose help we need, and this President is committed to that as he visited a public housing community across the river in Virginia and was inspired himself by his visit listening to the words of the residents who are helping to lead this kind of a renaissance.

One other lesson is that, in my view, our past failures should not lead us to the conclusion that we should turn around and then shift our resources to some other level of government and then just sit back through—I'm not going to say neglect because there's not neglect—but there's an abrogation I think of accountability and responsibility that went on too often at HUD in the past for us to say that we should at the Federal level push a national housing policy out into the municipal or the State level and decentralize the very failures that were caused in the first place by the design of the program.

Now that, again, is not an attack. It's simply a guidepost for us to remember that we should not do at the State level what we have failed to do at the Federal level.

The alternatives to an adequate management by HUD of our national housing resources should not be no management. It has to be better and more creative management at all levels, but certainly we think at HUD we have begun that process and we look forward to expanding it.

The budget, briefly, Mr. Chairman, I believe is balanced. You have a right to suggest that housing construction has been cut, but then you have an obligation to recall that support for families in need has increased. While budget authority went down because of expensive and sometimes flawed construction programs, housing outlays and housing assistance outlays went from about \$6 billion in 1981 to \$16 or \$17 billion in 1989. It's a little known fact, but we are directly subsidizing with our vouchers and certificates and direct housing assistance more than 4.5 million families. That's up from about 2.9 to 4.5 million families. More needs to be done, but we should not predicate the success of our program by how many

people are in need of housing assistance. We should predicate the success of our program by how many people can move from Government assistance onto that ladder that we call opportunity to climb out of poverty and out of public assistance.

And I think that's why we are tying our vouchers, to job training, tying vouchers to day care, tying vouchers to the attempt to link care and compassion and education and job training to the housing needs which then can allow that voucher or that housing assistance, whatever we might want to call it, it then can be used for another needy family.

In other words, I have stopped giving awards at HUD to people who have lasted on the welfare system or on public housing the longest and we are now giving awards to people who can move through it and on to the ladder of opportunity the swiftest. That's also what we want to keep in mind as we move forward.

I think this is an issue of fighting poverty. Someone said that Kemp has substituted rhetoric for results. Hey, I can assure you, you can't eat rhetoric. These people are in desperate need and I think we can design a housing and community development initiative that can begin to use the tremendous resources that are already there. As I said many times in Florida in Operation Bootstrap, Bob and Connie, it is legitimate for the Government to help prepare people to get the boots or to give boots or to provide boots and straps with which to pick themselves up by, and I don't believe that our program for homeownership, with all due respect to a previous statement, is to suggest that we are neglecting the raft and we are just trying to privatize the boat.

I said one time that I wanted a rising tide. I quoted John F. Kennedy and gave him credit for it, by the way. He said the rising tide would lift all boats. Someone said, "Well, Kemp is wrong. A rising tide will not lift boats that are sunk on the bottom of the harbor." And I said, "You're right. So the Government has the obligation to repair boats as well as to make sure the tide is rising and it isn't metaphorical to suggest that the Government does have an obligation to be a partner, but not to make people dependent totally on us to the exclusion of tapping that potential and possibility that they have."

Our budget does increase the number of people receiving housing assistance by more than 82,000. The budget provides 7,000 additional 202 units in 1991. I am pleased to report to everybody who cares about senior citizen housing, I spent a night in Opportunity Towers in Philadelphia with Dr. Sullivan's tremendous 202 program. The complaint about the pipeline being clogged I can report here, Mr. Chairman, it is being unclogged. We are going to get those 202 units out of the pipeline and I want to just assure you we will take whatever steps are necessary to eliminate the backlog in senior and handicapped housing which all too often has frustrated very good work that has been done in that important program.

We have asked for \$7.7 billion for expiring section 8 contracts. Someone said, "Well, Kemp, the budget only goes up for fulfilling the promise that we made to renew the expiring contracts." Well, last year at this time, we were getting some real severe questions about whether or not we would fulfill the commitment and we are and we know that we need to do that with your support.

We have doubled our request for public housing modernization funds. We realize that there are tremendous needs in public housing modernization. What a challenge it is. We don't think a little bit less than \$2 billion will cure the problem, Mr. Chairman, of all those boarded-up, vacant 80,000 units in public housing. But there again there's a big backlog of over \$3 billion, about \$3.4 billion, and we have also started a program that you will be pleased to know about called Operation Occupancy, in which we are going to provide public housing operating subsidies only to the units and to the PHA's that get those units occupied. When I came into HUD we were giving subsidies to PHA's for vacant units. In other words, we were subsidizing vacancy and punishing occupancy. We have reversed that counterproductive, counterintuitive idea and we are working with the PHA's. I appeared before all of them yesterday and got tremendous support for our idea of Operation Occupancy.

We have asked for an increase in appropriations for public housing operating subsidies. We provide \$150 million or a 50 percent increase over 1990 to promote the elimination of drugs in public housing.

I'll tell you what, though. Getting those units out of the hands of doers and dealers and crack artists and getting the boards off and rehabilitating those vacant units will do more to fight drugs, along with giving more adequate security to public housing, than just spending money in an antidrug program.

The whole package, Mr. Chairman, is \$7.2 billion in total resources, spending, grants, subsidizing, leveraging the private sector, supporting nonprofits and the great work that they are doing, and also using the tax code, which I think could reflect the values that we as Americans hold. We do it for middle-class Americans. We spend about \$52 or \$60 billion a year rolling over capital gains on the sale of a house, allowing people to fully deduct the tax on the property and interest on mortgages and I think it's money well-spent. I do. I think it's money that's important. But we ought to do at least something to give low-income people the same chance through our tax code. That's why we strongly support the LTC. I think it will lead, Mr. Chairman, to over 125,000 new units of construction through the positive application of the LTC, both for construction and rehabilitating.

There's \$1.5 billion in tax incentives, \$1.7 billion in matching funds, and \$1.2 billion in budget authority that we have requested for 1991 which would fund nearly a dozen programs of homeownership opportunities for low-income people.

Our preservation strategy is basically the idea of allowing the families in low-income communities in which there's a danger of prepaid mortgage opting out of a low-income support system for America's families, allow the residents themselves the right of first refusal to buy out, by monetizing the value of a 10 year voucher, which would be up to \$60,000 or more dollars. Where people don't want to do that, they shouldn't be forced to do it, but it should be an option that would encourage homeownership as one of the keystones of a preservation strategy. I appreciate the kind comments we have gotten from people on both sides of the aisle on that.

We have estimated that over the next 15 years, Mr. Chairman, owners of nearly 335,000 units of FHA-insured and assisted multi-

family housing will become eligible for prepayment. We have a big task on our hands and I pledge to you, Mr. Chairman, right here, right now, that if there's not enough money to accomplish what you and I want to accomplish, I will go back and work with this administration and go back and press on OMB, go back and work with the Congress, whatever it takes, to make sure that we fulfill our obligation to help low-income people not only preserve their stock but get their chance to become the home owner that they, too, deserve to be.

I am not going to go into the preservation strategy. I'm sure there will be a lot of questions about it. Let me skip over it.

I talked a little bit about Operation Bootstrap. As I said, the Bush administration, Mr. Chairman, is committed to maintaining the continuation of low-income assistance, but it's not just an end in itself. We don't want to be a burial ground for the dreams and ambitions of people who reside there.

So beginning in 1991, Mr. Chairman, we have asked for 56,000 vouchers and certificates to be combined with what I suggested earlier would be the type of upward mobility strategies from job training and day care to transportation and employment counseling that will get people through a welfare type program—i.e. a certificate or voucher—on to the ladder and then allow that voucher or certificate or housing assistance to be used for another low-income family.

Heretofore, the voucher system has forced people in one way to be dependent on the public housing assistance and we want to use the assistance as a way of moving people through the system and on to that ladder that we call opportunity.

Enterprise zones, I won't even—it is so ironic that we are preaching capitalism for the whole East of Europe and we are yet to allow low-income people in redlined areas to have the chance to greenline those areas and start the businesses and form the enterprises and create the jobs. I don't care if you want to change the name. Mario Cuomo calls it opportunity zones. Someone else calls it enterprise zones. Tom Kean, in New Jersey, calls it enterprise zone. Change the name, but pass it.

Let's get moving on eliminating the capital gains tax on any man or woman that invests in areas that have heretofore been redlined and need to be greenlined. Let's lower the tax on women and men who take jobs because they face the highest tax in America, as I said earlier. Today there are 14 million small businessmen and women, and only 400,000 black. Fourteen million small businesses and only 430,000 Hispanic. I want to double or triple that number in the 1990's.

Now I don't think this should be a zero sum game. I don't believe we ought to take from some and give to others. I do think we ought to direct and channel some of our capital resources through incentives in the tax code to doubling or tripling the number of minority-owned enterprises and spread the base of capitalism in this country to the minority community. It's a shock that black Americans and Hispanics only own less than 1 percent of the total capital assets in America. This bill, while not specifically talking about minorities, I think would unlock some of the seed corn and venture

capital necessary to expand the number of minority businessmen and women in the United States of America.

The last point I want to make, Mr. Chairman, is the Shelter-Plus-Care. This is not Kemp's idea. From Pete Dominici to many members of this committee to the New York Times editorial pages, tying shelter to compassionate use of our welfare system and support system is absolutely necessary to helping homeless people. I do not look down on anyone. I learned that from my mother and my daddy and I know each and every one of us want to help people.

I made the mistake one time of saying homeless and helpless in the same sentence and someone said, "Well, Kemp is attacking us as being helpless. We're not helpless." Of course, they are not helpless, but they need help and they need more than just shelter. They need job training, day care services, educational opportunities. They need our help in compassionate treatment of their substance abuse problem, if that is the case; or treatment for some mental illness, if that is the problem. But you cannot categorize all homeless people as mentally ill or all homeless people as a substance abuser or all homeless people as lacking in desire. I think we've got to do more, though, to tie our social welfare services to the compassionate treatment of whatever problem it is that exists and treat them in a more holistic approach. We are asking for \$761 million in the Shelter-Plus-Care program. I would just at this point ask for questions, Mr. Chairman, and thank you again for your hospitality not just to me or to the administration's proposal, but to your ultimate hospitality, mentally and intellectually, to this desire that we both have—to go forward in 1990 and make this country a greater democracy than it has been for those who have been left behind.

Thank you very much.

[The complete prepared statement of Secretary Jack Kemp follows:]

STATEMENT OF SECRETARY JACK KEMP
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
MARCH 20, 1990

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you today to discuss the budget and legislative proposals of the Bush Administration to preserve low-income housing and provide new affordable housing opportunities for low income families; expand opportunities for homeownership; and create jobs and economic development in our distressed urban and rural communities.

From the outset of his Administration, President Bush has shown his commitment to the great goals of affordable housing, homeownership, jobs and opportunity which are a part of the American dream. When the President first announced the HOPE initiative last November 10, he said: "We must unleash the resources of the profit and nonprofit sectors, of churches and synagogues, states and localities in our great national enterprise to assure safe, decent, and affordable housing for all."

Mr. Chairman, by presenting to Congress an innovative new proposal to expand affordable housing opportunities for the poor and promote economic self-sufficiency -- and by submitting a serious and responsible budget proposal for HUD -- President Bush has sent a clear signal that this Administration considers

housing and community development to be in the forefront of this nation's domestic policy agenda.

Mr. Chairman, we know that you and the members of your Committee share our desire to address the pressing need for decent, safe and affordable housing for all Americans. You can be assured that we intend to be partners with you in the process of breaking down the walls separating the poor from the American dream of opportunity and affordable housing.

We are gratified, Mr. Chairman, that you [and Senators Garn, Cranston and D'Amato] have introduced the Administration's HOPE initiative. I am aware that you have interests that go beyond our proposal, as do many other members of this committee. But I am confident, Mr. Chairman, that we share many of the same objectives. More important, Mr. Chairman, by your introduction of this bill you have helped set the tone for a bipartisan effort that enhances the prospects for achieving necessary housing legislation this year.

I would be remiss if I didn't mention the contributions and the ideas of a number of people to the debate that is beginning over the future of housing policy. We all owe a great deal to the efforts of Jim Rouse and David Maxwell and the dedicated people they assembled to produce thoughtful recommendations to enhance our ability to provide decent, fit and affordable housing for all Americans. And, Mr. Chairman, I also want to mention the efforts of your colleagues, Senators Mitchell and Danforth, whose task force provided important guidance on making the low income

housing tax credit a more effective tool for housing production. Finally, Senators Cranston and D'Amato are to be commended for their commitment and persistence in encouraging a debate over national housing policy.

Mr. Chairman, the discussion we are having today in this committee is long overdue. These important initiatives were unfortunately sidetracked for a time, when the pressing need to reform systemic flaws in HUD programs and improve HUD financial management and accountability became, unexpectedly, my first order of business as Secretary of HUD.

With the help of your Committee, we are implementing urgent reforms to make HUD programs less subject to waste, mismanagement and abuse. The Department is today better equipped to fulfill its basic mandate to provide assistance to those in need.

We believe that the time spent developing -- and now implementing -- a sweeping package of ethics, management and FHA reforms, has been well worth the effort. We are putting in place mechanisms that will require fair and truly competitive procedures for allocating housing funds; give HUD the tools to better enforce program compliance; and ensure a degree of management control and financial accountability which was previously lacking at HUD.

In particular, our reforms are getting the Federal Housing Administration back in the business of meeting its historic mandate to benefit first-time homebuyers and young families just starting out. In doing so, however, we've had to get out of the

business of undertaking inordinate financial risks for programs of limited or no public policy benefit, such as mortgage insurance for land development and loans for speculators, which have threatened the financial soundness of the FHA. In the meantime, we have undertaken a thorough review and revision of the FHA financial management systems, including a review of the Mutual Mortgage Insurance (MMI) fund's actuarial soundness.

I know this committee, as well as the housing industry, looks forward to the completion of that review and our presentation of specific recommendations for major or long-term changes in the FHA insurance program. Our proposals -- which I anticipate will be made later this Spring -- will be aimed at maintaining a safe and sound fund, which benefits those in the market who need FHA most.

Mr. Chairman, the past problems of HUD which were so well-documented last year, were a blessing in disguise, because we learned early the degree to which programs designed to help the poor had been poisoned by fraud, abuse, and just plain greed. We have learned from the past and will take all of the actions which are necessary to ensure that the programs of the Department are never again abused or misused for political purposes, excessive profit or personal gain.

During the reform process we learned some of the basic causes of abuse. Frankly, one of the lessons we learned is that our noble intentions have had unintended, counter-productive -- and very expensive -- consequences. Time after time, in program

after program, housing developers or well connected consultants were able to extract huge benefits from the Department for the construction, rehabilitation or maintenance of properties -- benefits which all too often resulted in large profits for themselves with little direct benefit to those in need. We know from past experience with subsidized housing construction programs that at least one-third of the benefit goes to the developer, the syndicator and the lawyer, instead of to the poor people we should be helping. And we learned, Mr. Chairman, that the layering of tax and other subsidies contributed to huge financial windfalls for developers or project owners at the same time the properties they owned came to symbolize the very absence of hope in our inner cities.

We believe, as Senators Mitchell and Danforth do, that the Low Income Housing Tax Credit (LITC) can be an extremely effective incentive to encourage the construction and substantial rehabilitation of low-income housing; we estimate the LITC will produce 125,000 units of low-income housing in 1991. In order to make it work better, we intend to improve monitoring, to target the LITC more effectively to low-income housing production, and to prevent the use of the credit to achieve excessive financial windfalls for project owners.

One lesson of reform, at least from the standpoint of this Secretary, is that we cannot just throw up our hands in despair over the Federal government's past failures, turn around and shift our resources to some other level of government, and then

abrogate the responsibility of the Federal government to develop and to maintain a national housing policy which meets national objectives. We would take a long and critical look at any proposed policy initiative which would effectively decentralize failures and institutionalize them at the local level.

The alternative to inadequate management by HUD of our national housing resources cannot be no management; it must be better and more creative management. We learned where mistakes were made, and we are in a much better position to provide the types of incentives which will increase affordable housing and homeownership opportunities for low income families.

The point is simply this. The Administration, with HUD as the agency responsible for developing and maintaining national housing priorities, intends to make better and greater use of all the available, realistic and cost effective tools at our disposal -- profit and nonprofit, public sector and private, and Federal, state and local government, the tax code and direct spending -- to increase the supply of affordable housing.

Before moving into a discussion of our HOPE initiatives, I want to talk briefly about how we intend to meet our continuing needs. We believe our budget is a balanced and broad-based proposal which affirms this Administration's commitment to serve the basic shelter needs of Americans, but it also aims toward moving poor people up and out of despair and dependency by providing tools for economic and social self-sufficiency.

Mr. Chairman, the Bush Administration recognizes the need to expand the base of housing assistance for unmet needs, and our budget reflects that. But just increasing rental assistance year after year will not stem a cycle of poverty. I did not want to come before this committee today just to begin a year-long debate about how much rental assistance we can afford and by what mechanisms those funds should be allocated. Mr. Chairman, I think a HUD Secretary and committees of Congress can do better than that. The success of our programs should be measured not just by the number of low income people we are serving, but also by the number who do not need government assistance: people who have private sector jobs, income and opportunity to own their own home or have decent housing and shelter.

Having said that, the Administration's 1991 budget does propose to increase the number of families receiving housing assistance by more than 82,000 -- 6,000 more than Congress appropriated last year. And, while our budget provides 7,000 additional Section 202 units in 1991, I am pleased to report that we are making progress in bringing on line thousands of units that were clogged in the Section 202 pipeline, and I assure you, Mr. Chairman, that we will take whatever steps are necessary to eliminate the backlog entirely.

Mr. Chairman, our budget requests over \$7.7 billion for expiring contracts, reaffirming the commitment I made to Congress last year that we will protect families in need who already

receive housing assistance through the Section 8 program; that no one will lose their home because of expiring contracts.

We have doubled last year's request for Public Housing Modernization funds, and almost quadrupled the request for Urban Homesteading. We realize that meeting the needs of public housing modernization is a great challenge, and we also realize that our \$1.9 billion proposal will not cure all of our modernization needs. But while we are committed to continue funding modernization, we must improve the program and eliminate the \$3.4 billion backlog of modernization funds previously appropriated but not yet spent.

As a step in that direction, I intend to launch a program called "Operation Occupancy" which would provide public housing operating subsidies only for those units that are occupied, thus eliminating the disincentive that exists in public housing today where vacant units are rewarded with operating subsidies.

Mr. Chairman, we have also requested an increase in the appropriation for public housing operating subsidies. We continue to request full funding for the homeless programs under the McKinney Act and we are shifting the emphasis towards transitional and permanent housing. We provide \$150 million, or a 50 percent increase over 1990, to promote the elimination of drugs in public housing. And we support roughly level funding for Community Development Block Grant programs.

However, we consider just as important our effort to launch new strategies to give poor people the opportunity to achieve economic self sufficiency.

President Bush and I believe that the HOPE proposal is a dramatic, far-reaching, incentive-oriented approach to fighting poverty. We believe it can be the cornerstone of a new effort to empower the poor, revitalize communities, and replace the cycle of poverty and dependency with the ladder of opportunity.

The HOPE strategy is directed at fulfilling four of the basic priorities which the President and I have established for HUD:

- o Expanding homeownership and affordable housing opportunities for low- and moderate-income families and young families just starting out;
- o Empowering low-income families to achieve self-sufficiency and have a stake in their communities by promoting resident management and urban homesteading;
- o Creating jobs and economic opportunities in our nation's distressed inner cities and rural areas; and
- o Helping to end the tragedy of homelessness and to provide special emphasis on the long-term homeless who are in need of social services or health care.

Our HOPE strategy recognizes that many of the anti-poverty programs which have been in place for more than a generation have not been particularly effective in reducing poverty, and only partly effective in alleviating its worst symptoms. Too often,

the goals of the poor have been frustrated by over-reliance on government entitlements and an attitude that the poor were unwilling or unable to become entrepreneurial risk-takers, small business people, producers and job holders.

We need to disavow the belief that poverty is a perpetual condition, that the best poor people can hope for is a life dependent on welfare. We need to view low income people as a resource. The goal of our new war on poverty must be to develop a system that encourages individual dignity, initiative, productive work effort, and family structure.

Mr. Chairman, our HOPE initiative proposes \$7.2 billion in total resources for housing and urban development over three years. That includes \$4 billion in Federal expenditures, \$1.5 billion in tax incentives, and \$1.7 billion in matching funds. The \$1.2 billion in budget authority we have requested for 1991 would fund nearly a dozen HOPE programs for low income home ownership and assist the homeless and the elderly. I want to spend some time discussing the key elements of the HOPE package.

Multifamily Preservation and Prepayment Assistance

The first step toward ensuring an adequate supply of affordable low-income housing is to preserve the housing we already have. HUD estimates that over the next 15 years, owners of nearly 334,000 units of FHA-insured and assisted multifamily housing will become eligible to prepay their mortgages, thereby potentially eliminating low-income use restrictions on these properties.

We are committed to the enactment of legislative solutions to the prepayment problem that are reflective of local markets, and those ensuring that affordable housing in these local markets remains available to low-income families. We believe homeownership is an effective way of ensuring the preservation of this endangered stock. And, in all cases we will protect tenants with the most comprehensive set of tenant protections in HUD's history.

The HOPE proposal will provide maximum opportunity for tenants and nonprofits to buy units which are eligible for prepayment. We intend to provide almost \$1.1 billion over the next three years that can be used by resident groups in Federally insured and subsidized multifamily projects to help them purchase the buildings they live in and become homeowners, when an existing owner chooses to prepay. Nonprofit neighborhood groups working on behalf of resident councils would also be eligible for grants.

Our preservation strategy consists of three options.

One, resident groups and nonprofits will have a two year right-of-first refusal which will enable them to purchase the units in their buildings and become homeowners. These groups will receive an amount that is equal on a national basis to an average amount of nearly \$60,000 per unit, to be used for acquisition, rehabilitation, technical assistance and other purposes. I stress that the \$60,000 is an average, as the grant is determined by local fair market rents.

Let me assure this subcommittee that we understand that homeownership is not a viable or desirable option for all residents, and we intend to protect fully the rights of nonpurchasing tenants. Tenants needing assistance to pay their share of project expenditures will be eligible for Section 8 rental assistance.

A second option, should residents not desire the opportunity to become homeowners, is to offer incentives to current owners to keep the projects as low-income rental housing for the remaining life of the mortgage, approximately 20 years. HUD will require that projects be brought up to quality standards before providing any inducements.

The primary inducements available to owners include increases in project cash flow and FHA-insured equity take-out loans. These inducements provide an owner with a substantial portion of the value of their property without removing low income use restrictions. HUD will provide the funding necessary to increase cash flow for the owner, but will leave enough equity in the project for security for the FHA fund.

The third and final option, should an owner choose to prepay in spite of our efforts to convert the project to homeownership or maintain it as low income, is to allow prepayment while providing tenants with access to alternative affordable housing opportunities. We will not allow prepayment to occur unless there are funds available to protect the tenants. This is the

most basic protection we can offer against owners selecting the third option.

The protection of tenants is considered a shared responsibility of both HUD and the owner. If there is prepayment, the owner will be required to pay relocation and moving expenses as well as 6 months of rental costs for displaced residents. HUD will also fulfill its social responsibility by guaranteeing each displaced resident a housing voucher or certificate. This assistance together will not only help guarantee decent housing, it will also be a powerful disincentive against prepayment of FHA mortgages.

Mr. Chairman, there is no way of knowing at this point how many owners will want to prepay in the next years. That depends a great deal on the incentives offered and the state of local real estate markets. The Fiscal 1991 budget includes \$412 million for our program, which we believe will fully fund the program for 1991. The Administration is committed to the full funding of this proposal, and will request additional funds to finance the program if needed.

Let me say that our preservation strategy has required a delicate balance between the rights of private property and the social obligation of protecting low-income tenants. I firmly believe that leadership and compromise from both sides is absolutely critical if we are going to reach our goal of a permanent solution to prepayment problems.

We know our plan won't be the final word on housing preservation, and we look forward to working with you toward reaching agreement on a long-term preservation strategy well in advance of the September 30 expiration of the prepayment moratorium.

Operation Bootstrap

Mr. Chairman, Federal housing assistance is a critical part of the social safety net. As I have said, the Bush Administration is committed to maintaining a continuation of low-income assistance. But assisted housing is not an end in itself. It must not become a burial ground for the dreams and ambitions of the people who reside there. The Administration believes that housing assistance can serve as a transitional tool to help low-income people achieve self-sufficiency, move up and out of assisted housing, and join the economic mainstream.

Beginning in 1991, more than 56,000 vouchers and certificates will be combined with upward mobility strategies including job training, child care, transportation, employment counseling and other services which are essential to helping families become self-sufficient. The 1988 Welfare Reform bill authorized over \$1 billion in service funding, and Operation Bootstrap will assure that housing assistance is coordinated with that promising initiative, as well as with other Federal, State and local programs.

By encouraging upward mobility, HUD's subsidized housing programs will be available to even more low-income families.

HOPE Tax Proposals

The provisions of HOPE which deal with the tax code are critical elements of the HOPE package.

We are proposing a three-year, \$1.5 billion package of tax expenditures which are targeted to further increase low and moderate income housing opportunity and to help create jobs and nurture entrepreneurship in our distressed inner cities and rural areas.

These proposed three-year expenditures include:

- \$520 million for Enterprise Zones, a program authorized in the 1987 Housing and Community Development Act;
- \$190 million to allow first-time homebuyers to use their Individual Retirement Account savings for downpayments; and
- \$786 million to extend the Low Income Housing Tax Credit (LITC) for one year. As I said before, the LITC is a powerful, incentive-based approach to providing investment for new construction and rehabilitation of low income housing through the private sector. The LITC will be responsible for generating the construction of up to 125,000 units of affordable housing each year. This program, as part of our HOPE proposal, is intended to serve as an effective development tool in tight markets where new housing construction is needed.

Let me point out, Mr. Chairman, that this one year extension of the LITC represents a federal investment, through tax

expenditures, of \$3 1/4 billion for low income housing production over the next ten years.

Shelter Plus Care

Helping to end the tragedy of homelessness is a high priority of the Department of Housing and Urban Development. Accordingly, President Bush has recommended full funding of the McKinney Act for each of the last two fiscal years.

However, we recognize that the deep-seated problems of the homeless who are mentally ill or substance abusers -- 50 percent or more of the total homeless population -- will not be solved by shelter programs alone. Our proposal reflects the contributions of many individuals, including Senator Pete Domenici -- who has been a leader in Congress in the prevention of homelessness. Their consensus view is that a more complete answer to getting people off the streets and back to a dignified life is permanent housing supplemented by necessary supportive services.

We agree, and to this end, we are proposing a three-year, \$761 million "Shelter Plus Care" program for the homeless. This money would fund a new rental assistance program, Single Room Occupancy units, and group homes to be supplemented on a dollar-for-dollar matching basis with supportive health care and social services. Our purpose is to restore to the homeless a chance to live a normal and dignified life. We must ensure that capable nonprofit sponsors, like Project HOME in Philadelphia, have the ability to provide both housing and supportive services to homeless people who need them.

Independence for Elderly Americans

We believe supportive services are equally essential to many elderly families in order to prevent their premature institutionalization. Therefore, we are proposing a demonstration program to provide support services for independent living for the elderly who are in need of such services. We are especially interested in testing whether such services can save the government funds over the long run by reducing the need for the Medicaid program and nursing home care.

The Service Assistance for the Frail Elderly component of HOPE would provide \$10 million in services funding, coupled with \$34 million in five-year housing vouchers, to be awarded competitively to PHAs to assist the frail elderly. Services funding would cover 40 percent of the cost of services, tenants would provide 10 percent, and PHAs would be required to secure 50 percent of the cost from a variety of other Federal, state, local or private sources.

Housing Opportunity Zones

Some of the greatest obstacles to affordable housing are created by unnecessary local regulations. Artificial barriers such as restrictive zoning, obsolete building codes, and complex permit processes can raise the cost of a housing unit by tens of thousands of dollars or make housing unaffordable for low-income families.

At President Bush's request, I have appointed a Blue Ribbon Commission, headed by former Governor Tom Kean and former

Congressman Lud Ashley, to identify barriers to affordable housing and then make recommendations on how these barriers can be removed.

In addition, our HOPE proposal will create 50 Housing Opportunity Zones, chosen competitively, using the principles of the Enterprise Zone concept, to expedite Federal insurance and provide funding preferences to urban and suburban communities that most effectively remove regulatory barriers to affordable housing, with emphasis on homeownership.

We believe that Housing Opportunity Zones can be used to spur construction or rehabilitation of housing in localities that have large amounts of vacant buildings, vacant land, and limited homeownership opportunities. This program was modeled after one developed by former Mayor Andrew Young of Atlanta.

HOPE Homeownership Grants

We propose to spend nearly \$2.15 billion in Federal funds alone over the next three years for HOPE Grants which will provide funds for States, localities and nonprofit organizations to help low income families and tenants become homeowners. We will leverage these funds by requiring a match of \$1 for each \$2 in Federal funds.

HOPE grants are eligible to be used in public housing, vacant and foreclosed properties currently held by the Federal; State and local governments; distressed properties in the FHA portfolio; and RTC, Farmers Home Administration and VA.

The public housing HOPE Grant will put homeownership within the reach of low-income families. At the same time it will preserve and upgrade the low income housing stock while making it a platform for pride and self-sufficiency. If a public housing unit does not remain a part of the low-income housing stock, it will be replaced with an additional unit, including Section 8 vouchers, certificates, rehabilitated units, or new construction. A separate \$251 million in 1991 would fund 6,000 certificates and vouchers for relocation, replacement of units and temporary operating assistance as part of the HOPE homeownership program.

Mr. Chairman, the concepts of tenant management and ownership and urban homesteading are at the very center of the HOPE initiative, because they work. In communities around this nation, non-profits, neighborhood groups, and community housing efforts are taking the boards off vacant and foreclosed property; rehabilitating that property, often through sweat equity; and turning thousands of dilapidated houses to decent, quality low-income housing.

HOPE Grants will tap the creative energies of nonprofit groups and resident leaders by providing funds for training, technical assistance and seed capital for activities such as rehabilitation, acquisition, technical assistance, and mortgage assistance. Up to 15 percent of the grant can be used for capacity building, in order to prepare low-income people for homeownership. These activities include counseling, technical assistance and other types of education. Because economic

development is a critical stepping stone to homeownership, up to \$250,000 per project can be used from the HOPE grant to set up business enterprises to be operated by residents, such as food coops, day care centers, maintenance companies, and laundromats.

The opportunity to own or to control one's own shelter and living environment is probably the most basic form of empowerment. Because the residents themselves have the most to gain, I am confident that low income housing will be better preserved when the residents are given the opportunity and the responsibility for their own homes.

The tenant management and ownership movement today is at work in places like the New Edition Cooperative in Nashville, in East Baltimore, at Waverly Homes in New Haven, in Estrada Courts in East L.A., at Cochran Gardens in St. Louis, Bromley Heath in Boston, Cabrini-Green in Chicago, Rhoads Terrace in Dallas, Northside Tenant Organization in Pittsburgh, and dozens of other cities. It is dramatic proof that, working together, we can reverse the disincentives that have trapped people in a cycle of poverty.

Mr. Chairman, I want to take this opportunity to make a couple of points about the Kenilworth-Parkside Public Housing Development which, through the leadership of Kimi Gray, has been an inspiration to us and to low-income residents around the country. We have learned a great deal from this successful project here in the District of Columbia.

One criticism of the Kenilworth-Parkside has been the costs associated with the homeownership program. Yet most of the cost is attributable to essential comprehensive modernization -- an activity which was necessary whether or not the project converted to homeownership. Unfortunately, the costs of the modernization work were excessive, due a poorly run program by the local housing authority. But, despite the relatively high cost of modernizing public housing in the District, the accounting firm of Laventhol and Horwath estimates that the project will actually save the government over \$11 million during the first 15 years of homeownership.

Nonetheless, the Department welcomed, and has implemented, recommendations of the GAO -- which has completed one report on the sale of Kenilworth-Parkside to its residents -- and has incorporated those recommendations in the HOPE legislative package including:

- o that the feasibility of individual ownership be evaluated prior to sale to a resident management corporation; and
- o that the public housing authority have the right to buy back and satisfy any lien on a defaulted RMC property in order to protect its low-income use.

Mr. Chairman, we believe that HOPE will provide immediate and important answers to the seemingly intractable problems of housing availability and affordability in this country, and increase opportunities for homeownership, job creation and empowerment. The HOPE initiative represents a fundamental

redirection of programs that have had at best only modest success in attacking the root causes of poverty. HOPE would redirect these programs back to the poor and low-income tenants.

Abraham Lincoln once said, "When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition; he knows that there is no fixed condition for his whole life."

Lincoln had an understanding, born of personal experience, that the American Dream is not to make everyone level with everyone else, but to ensure that all people have the opportunity to reach as high as their God-given potential allows.

Now is the time to institute policies that say to the poor, "yes," you can own your own home; "yes," you can carry out your entrepreneurial desires; and "yes," you can dare to dream of a better life. That is the goal of our HOPE initiative.

Mr. Chairman, the Administration looks forward to working with your Committee in a spirit of bipartisanship to address our pressing housing and economic development priorities.

The CHAIRMAN. Thank you very much, Secretary Kemp.

Your obvious feeling about this is one that's fully shared and appreciated by everybody on the committee.

Senator Sanford, before we start the questioning, did you have an opening comment you wanted to make?

Senator SANFORD. Mr. Chairman, thank you. I will put in an opening statement that makes the point that we don't want to forget rural housing in all we are doing. Maybe we haven't paid quite enough attention. I will just put that in the record.

The CHAIRMAN. Very good. We will make that part of the record.

OPENING STATEMENT OF SENATOR TERRY SANFORD

Senator SANFORD. Mr. Chairman, I thank you for holding this critical hearing as we work to develop significant housing legislation in the Senate. Your leadership in drafting HUD reform legislation and developing the National Affordable Housing Act has brought this body to the point where we can enact landmark housing legislation that will establish a foundation for the future. I look forward to working closely with you over the upcoming months to make this long sought dream a reality.

I am proud to be a cosponsor of the National Affordable Housing Act, and I believe that it should serve as the basis of Senate housing legislation. The Cranston-D'Amato bill makes a substantial commitment to the expansion of the supply of affordable housing and builds upon the innovative efforts of State and local governments, nonprofit organizations, and private sector groups. The legislation not only improves homeownership opportunities, but also assists renters, individuals with special needs, the homeless, and rural households. It is a worthy product of 3 years of effort.

I also want to commend the strong leadership of Secretary Jack Kemp. Under your leadership, the Department of Housing and Urban Development has come back to life and rededicated itself to providing housing assistance to those most in need. I applaud your efforts to reform the Department and to steer a housing package through the administration—I'm not sure which task was more difficult.

The administration's HOPE legislation presents many intriguing proposals to encourage homeownership, empower low-income tenants, and assist special needs populations. It also harnesses the tax code and other Federal incentives to encourage housing production and community development. The administration's package is worthy of strong consideration and in many ways compatible with the Cranston-D'Amato bill.

I am concerned, however, that the HOPE package represents a reordering of housing assistance at HUD, rather than a commitment to expand the supply of affordable housing. The HOPE programs are funded largely with cuts from other critical housing programs including community development block grants, public housing modernization funds, and section 202 funds for the elderly and the handicapped. The legislation is inhibited by the President's budget request for housing which reduces current services baseline budget authority by some \$500 million.

I also have some reservations about the potential impact of the program in rural areas. The HOPE program relies upon housing stock from public housing and distressed or foreclosed FHA properties—housing stock which does not exist in great numbers in rural portions of the country. I come from a State in which 45 percent of the population lives in rural towns, and I hope to work with you to strengthen the rural component of this bill.

While I have my concerns, I am pleased that the administration has come forth with its package, and I think that many solid ideas exist within this legislation. It is my hope that the administration and the Congress can work together on a bipartisan basis to fashion a substantial housing bill out of the HOPE proposal and the National Affordable Housing Act. The proposals are before us and now it is time to get down to work.

I look forward to hearing more about the HOPE proposal and to working with Secretary Kemp and the chairman on this effort.

Thank you Mr. Chairman.

The CHAIRMAN. Senator Bond, did you have an opening comment to make?

OPENING STATEMENT OF SENATOR BOND

Senator BOND. Thank you very much, Mr. Chairman.

I apologize that this has been a very busy day for me and I have another commitment at 11:30, so I'm going to have to follow the record of this hearing very carefully.

I want to join with the kind words that my colleagues on the Banking Committee have already expressed to the Secretary for his dynamic leadership, for the good cooperative spirit on a bipartisan basis which we are approaching these housing reauthorization decisions as they come before us.

I would note for my colleagues and for the Secretary that today I intend to introduce a public housing reform measure which builds on proposals that come from both Cranston-D'Amato and the Kemp programs. We have seen the good and the bad in public housing in Missouri and around the country and we feel that we can do more to assist public housing by establishing some broad standards and to say to those public housing authorities which perform well that you can get your CIAP or modernization funds on a block grant basis so you can plan preventive maintenance and, on the other hand, for those public housing authorities that are not performing well, we would like to see additional powers given to HUD for options such as contracting out for private management, either not-for-profit or for-profit management, those housing developments which are not being run properly and clarifying the power of HUD where public housing authority in the very rare instance where it fails completely can apply for receivership.

I will be circulating all of this information to my colleagues and I invite their comments and cosponsorship. Obviously, this is just a starting point. We hope that we will be able to improve upon it and add it in addition to the fine proposals that are already before this committee and will be before the Senate on housing reauthorization.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bond.

I might just say that we on this committee are very fortunate to have a number of former Governors, of which of course you are one, and Senator Sanford and Senator Bryan and Senator Graham of Florida, and all bring very valuable executive experience from that previous activity.

I think that helps us enormously in thinking through these things and I, for one, will want to see what you have drafted here. I'm very interested in it.

We are going to start the questioning period now and I'm going to yield to Senator Cranston so that he might open up the questioning on our side.

Senator CRANSTON. Thank you very much, Don.

Jack, we all appreciated very much your enthusiastic opening statement.

Secretary KEMP. Thank you.

Senator CRANSTON. I've made plain, as others on the committee have, of our desire to work with you on a bipartisan way to incorporate as much as we can of what you have proposed with what we feel is necessary.

What I want to do now is just ask you some questions about how we make sure we achieve the goals that we share in the context of the legislation you have proposed.

The Housing Subcommittee has been considering the country's escalating housing problems, as you well know, for the past 3 years now. It's been very clear that one basic fact of our housing problem is the supply of low-cost housing. The supply of housing that low-income people can afford is being lost at an alarming rate. One and a half million units each decade. Signs of that pressure are everywhere. Four million families living in substandard housing or paying more than 50 percent of their income for rent, scandalous numbers of homeless people, and waiting lists for public housing that are so long that people will have to wait years to get in. Many communities simply have to stop accepting names because they don't want to raise false hopes. It's becoming like Poland where people must wait 20 years. It's becoming well beyond a year in many communities in America.

In my view, any housing bill must be judged on whether it will mobilize the country's resources to provide more affordable housing.

The HOPE package by itself would essentially take existing low-income housing and housing that was created over the past generation or so, and transfer ownership to current tenants.

If that's all we do, we won't slow down or reverse the loss of affordable housing in our country. And in that case, what do we do to help the few people will only make things worse for others whose needs are every bit as great.

So my question is, what can we do beyond what the administration proposes—and certainly more is needed—to step up the challenge to expand the supply of low-cost housing?

Secretary KEMP. I think the issue that you raise, Senator Cranston, is certainly a legitimate one and it's a powerful argument that you have made using statistics. I think we've got to look

beyond just the surface of this issue to find out what has impacted so unfavorably on the housing stock for low-income people.

I will be frank. I believe we went too far in 1986. I was a strong supporter of tax reform. I still am. I think we did the right thing. I worked with Senator Bradley and worked with many members of this committee on making sure, but I think you could make a case now that we have to put back into the tax code an incentive. I said in my statement I do believe that if we are prudent and responsible, we should have a tax code that reflects the values that we share of which one is homeownership, and I think that is adequately reflected in our tax code because we give huge incentives for homeownership for middle-income Americans. We have not done as well for multifamily rental housing and low-income communities.

So the LITC will be an important program. I think it will construct over 125,000 units of housing. There are a lot of things that impact on housing affordability, including regulations and codes and zoning and building costs and development fees and exclusivity of policies or zoning that prevents communities from doing things.

So, the President has asked me to help lead an all-out national study of what these barriers have become. In some communities, including southern California, only 10 percent of median-income people can afford a median-priced home.

I can show the charts which I think lend empirical evidence or proof to the fact that barriers have been raised in the low-income housing area that prevent people from getting access.

I would use the tax code. I would use FHA. We are getting FHA into the full insurance of multifamily housing. We got it out of co-insurance because it was mightily abused. We think there are tight markets where vouchers perhaps do not work as well, or certificates don't work as well. And I can imagine that in those tight markets we are going to have to be very sensitive to what is done, but there's a tremendous rehabilitating need in private housing, as well as in public housing, and I would imagine by the time this debate is over we will completely air many of these statistics in such a way as to come to a positive and progressive type of housing legislation that can expand the stock and not go back to the old programs that in some ways failed miserably to deliver both on their promise as well as on the needs of low-income people.

Senator CRANSTON. Thank you very much. We obviously have to explore those ways. I hope we can find them and agree upon them together.

Secretary KEMP. Thank you.

Senator CRANSTON. As the committee worked on housing policy over the past 3-years, we uncovered a strong consensus that a new housing policy should build on the ferment of housing activities that has emerged among State governments, local governments, nonprofits and private firms during the time when the national administration was not doing that much.

The National Affordable Housing Act will strengthen these exciting activities into a national partnership that could make a real difference in housing over the next decade, encouraging local communities and States to wrestle with their local housing problems and to tailor solutions to their local needs.

Any improvement in housing affordability will require coordination among State policies and local policies that affect land use, taxation and other factors that drive up housing costs and will require strong participation of private firms that are committed to their local communities.

The HOPE bill seems to be silent on the need for Federal participation in such a partnership. It mentions only the obligation of States and localities to come up with matching funds. HUD would go back to the old style posture of trying to go around mayors and Governors and to call the shots about local housing policy, going around the country picking winners and losers.

So the question is: Shouldn't we work to strengthen the HOPE package to face up to the need for building a strong, cooperative partnership with States and localities? If HUD is going to call the shots, how are we going to get Governors and mayors and other local organizations to cooperate with the Federal Government and to help reduce the cost of housing?

Secretary KEMP. Well, Senator, first of all, I don't disagree with the thrust of your question or the premise upon which it is based; that there is incredible work being done in the nonprofit community and there is no stronger advocate of incentivizing and indeed encouraging and in some cases directly subsidizing the good work that our nonprofits are doing for humanity, including President Carter, Millard Fuller and many well-meaning people of the Enterprise Foundation. I shouldn't begin to mention them because it really leaves out an awful lot of tremendously successful and positive and progressive nonprofit, church-based and secular-based activities.

But we don't leave the cities out. One third of our HOPE grants are for nonprofits in the area of both housing construction and rehabbing. The cities and States are eligible for virtually every single part of the President's HOPE proposing, including the HOPE matching grant program for homeownership.

The Shelter Plus Care Program absolutely is designed for States and cities to partner with the Federal Government in tying services, support services to shelter from enterprise zones and housing zones to the elderly independence paradigm and the low-income housing tax credit is available to States and cities.

We obviously want to tighten up on how it works so that people cannot layer on a big section 8 subsidy with a low-income housing tax credit and get a windfall profit. We have designed our HOPE package along the lines of making sure that there is a profit incentive, but not the type of windfall that is all too often in the past been abused.

So we want to and, as I told you I think when I first got this job over a year ago, that we wanted to work with mayors, Governors, nonprofits, profits and certainly with this committee, which has evidenced so much good faith. So if we've made a mistake in here somewhere, Senator Cranston, and we have denied the type of participation that you alluded to, you can be assured that I would like to find the way to correct it without of course abusing the central thesis of our homeownership and opportunity program. We're not going to leave the cities and States out. I pledge that to you.

Senator CRANSTON. Thank you very much. I've only gotten started, but my time is up.

Secretary KEMP. I just want to add a postscript, Don. I don't want to see us take a mistake that I think was made too often in the past and then institutionalize it by decentralizing it to the States. So I'll work with you to make sure that we have a way not to do with the States and the cities what all too often happens at the Federal level. And if all we wanted to do was let the cities and States do it, we could just double or triple CDBG and let them do it. I don't favor that, and I don't think you do either.

The CHAIRMAN. Senator Mack.

Senator MACK. Thank you, Mr. Chairman.

Jack, I would like to give you an opportunity to maybe expand on the concept of housing zones. I'm assuming that that's an indication that there are in fact regulations, barriers or whatever that have increased the cost of producing that housing unit, which has increased the cost to the point where it is in fact out of reach of many people. I wonder if you would expand on the idea of housing zones.

Secretary KEMP. Well, I first came across the idea of a housing zone on my first trip to Atlanta where I met with Mayor Andrew Young and several innovative leaders in innercity low-income housing developments, including nonprofit and for-profit.

What Mayor Young had done in the city of Atlanta in order to attract low-and moderate-income housing back into his city was to designate a zone that had been in one way or another red lined in the past. He had taken that green lining enterprise zone concept and tied it to housing and said that he would eliminate the property tax for 5 years, phased it in over the next 5 years, and he used tax incentives to drive developers to build low- and moderate-income housing in these areas that had been neglected for too long by red lining practices.

I am antiredlining, and I think this committee is antiredlining. I have been convinced that we can begin to use the tools at our disposal positively and progressively in some of our urban and rural areas of America which have been neglected by innovative targeting of the Tax Code, of our rental subsidy programs, the rental rehab grant programs and using FHA prudently, but nonetheless effectively in areas that have taken steps to streamline their construction approval process.

I want to use every possible tool at our disposal to incentivize areas that have been all too often red lined, and we called it housing zones just to come up with a title that would give meaning to the concept of reducing barriers in these zones that have led to low-income people being left out of housing markets.

Senator MACK. Let me move to another area and I guess restate a challenge that was made at the meeting that Senator Graham talked about earlier.

Secretary KEMP. Could I just say this?

Senator MACK. Sure.

Secretary KEMP. I just remember when this came up in front of Chairman Gonzalez in the House, and I announced that we had asked Tom Kean, Governor Kean of New Jersey and former Congressman Lud Ashley of Ohio, a distinguished Republican and dis-

tinguished Democrat to lead the President's Task Force Blue Ribbon Commission for a study of barriers to affordable housing, and I just wanted for the record, Mr. Chairman, to let you know that both Lud Ashley and Tom Kean have agreed to serve with a bipartisan group of blue ribbon Democrats, Republicans, developers and community activists. We really have some terrific people, including Barbara Kerry, Commissioner Kerry of Dade County, and Kimi Gray here in D.C. among others.

Senator MACK. Mentioning Kimi Gray, I'm going to be raising Kimi's name, because at this meeting that Senator Graham and I held down in Tampa last week one of the challenges, if you will, that was raised was, look, if I had the money that went into that project, I could be very successful, too. And it was said in such a way, and I don't remember the numbers, but it seemed like Florida got \$13 million in some rehab funds or something like that during a given year, and Kimi Gray's project got \$35 million, and if I could have gotten that kind of money, I would have been successful, too.

I think that is the kind of argument that is going to be thrown at us, and I think it's one that maybe if you could address it today I think it would be helpful. I guess the underlying premise there was if you spend enough money, homeownership and tenant management is going to be successful, and I don't think that's the premise in which you have projected this idea.

Secretary KEMP. Well, let me just say quickly, and it's a very important point, and I think the committee is going to want to pay some special attention to what the costs are of rehabbing public housing, not only from the people who want to just rent, but those who do want to own, like those in Carr Square, St. Louis, or Cochran Gardens or Rockwell Gardens in Chicago, or Cabrini-Green or Bromley Heath or Liberty Square or Estrade Courts. The reason I bring them up is I'm just impressed with the type of leadership that is there waiting to be tapped.

The costs at Kenilworth-Parkside are subject to all of the vagaries and vicissitudes of the debate over public housing being privatized. I don't like the word "privatization" as much as I like "homesteading" because I think it better conveys what Mr. Lincoln wanted to convey in the last century and what we should be conveying in urban America today, that homesteading, sweat equity, self-help and encouraging it is really a very positive and progressive and compassionate way to help people get a stake in the system.

The Kenilworth-Parkside public housing rehabbing was expensive, but I'll tell you what, the costs, according to a Big Eight accounting firm, that are saved for the Federal Government and the city of the District of Columbia are significant. The Laventhol and Horwath study says after 10 years there is \$6 million that will be saved, over 15 years \$11 million, and after 40 years \$26 million.

Frankly, it fails the test of what we should be all about. If we can convince a boy or a girl in school to stay in school, if we can help keep a family together that was going to break up, if we can get a job that leads to upward mobility, if we can create the sense of independence as opposed to dependency in this cycle of poverty that we all decry and don't do enough to fight, I think the cost is

well worth it in reducing the social costs of all of those pathologies that manifest themselves in such desperate conditions in so many urban and rural pockets of poverty.

So I hope in the debate we don't lose sight of the fact that we've got to think more than just green eye shade accountants. We've got to think about the consequence of repairing families and lives and children's hopes for the future as opposed to just what the cost was, whether it was \$40,000 a unit or \$50,000. If it's \$50,000 and it succeeds, the cost is worthwhile to me and should be to us, and I know it would be to you.

Senator MACK. Sure. The other comment that they make, Jack, with respect to the homeownership concept is that there just aren't enough Kimi Grays out there to make projects successful.

Secretary KEMP. Oh, that's outrageous, it's elitist, it's wrong, it's ignorant and stupid. [Laughter.]

I saw a conservative columnist the other day, and he said to me, Mr. Chairman, Kemp, you're crazy, you should give up on these people, they don't count and the only way to help them is to forget them. I find that objectionable on the right and I find it equally objectionable among elitists on the left, and there are both, unfortunately.

Mr. Chairman, I think the fault line in this issue is not left and right, and I don't think it's between our two parties, even though we're going to have debates on the edge of this big issue. The fault line is between what I consider to be a very populist, people oriented tapping of their potential and those who think that nothing can be done and all you can do is anesthetize people from the vagaries and the vicissitudes of poverty.

There are hundreds of thousands of capable work force contributors of children who want to go to college, but unfortunately the street is a lure. We should reward staying in school and keeping families together and taking jobs and starting enterprises and getting homeownership as opposed to doing exactly the opposite for people that we want to encourage to lead productive lives. There are thousands of Kimi Grays.

Senator MACK. I have raised those two questions not because I agree with them, but because—

Secretary KEMP. And a lot of them are in this room, by the way. [Applause.]

Senator MACK. I raised those questions not because I agreed with them, but because I think it's important that they be defeated early on in the debate, and we move on, as you say, to what is important, and that is, as I mentioned earlier, that a 2 or 3-year-old boy, giving him the opportunity for success in life.

The CHAIRMAN. I might just make a personal comment before yielding to Senator Sarbanes for his questions now, and that is if you have ever participated in team sports along the lines of the analogies that Senator Sarbanes used earlier that we often use with you, Mr. Secretary, you realize that you need everybody on the team, and in America the whole country is the team, and we need everybody on the team able to perform and able to do their best and accomplish as much as they can.

Secretary KEMP. Absolutely.

The CHAIRMAN. We can't leave anybody out. We can't walk away from anybody or ignore anybody or say they are not important because they are important.

Secretary KEMP. Absolutely.

The CHAIRMAN. And I think that team American approach, which is really the key now to how the United States adjusts also to this new, tougher global economy, there is not a kid in America or a person of any age that we can discard or forget about or ignore without having the whole country come short of where it otherwise could be and must be.

Secretary KEMP. Good for you.

The CHAIRMAN. So I think every person in our society has the potential and the talent to make a real contribution to this country and to its future, and what we've got to do is figure out how we get out there and get everybody a chance to get into the game and contribute all they can. To me that's the essence of this country.

Secretary KEMP. I totally agree.

The CHAIRMAN. Let me yield now to Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Mr. Secretary, I was interested in some of the dialog that took place earlier about what is occurring in Eastern Europe and how those societies are moving away from planned economies.

The important point I think is that the West Germans at whom they're looking, and I make this point because I've had some West German visitors who have been absolutely staggered by the housing conditions in this country, and their response to it has been well we have nothing like that in our country at the lower end of the housing scale. In other words, they don't have people either without housing or housed in clearly substandard housing.

When they talk about their economy in West Germany they don't simply talk about the market economy, they talk about a social market economy, and they are very proud of that. It's an economy that works on market principles, but has an element of social responsibility in it and a Government role in achieving that housing.

Now I'm for leveraging and I'm for throwing a short pass and letting the private sector carry it on if that is what the play provides for, but there has got to be some momentum I think out of the public sector, and I think that's one of the things that we've got to try to put together here in this process that is now beginning.

Now it's clear all of the past housing programs didn't work well, but some of them did work well. For 10 years they've been starved to death by the Reagan administration, on the one hand, by not providing money for them to begin with and, on the other hand, what money was provided, a good deal of it was siphoned into private pockets, which is this abuse that you're trying to deal with, and it also goes to the point you made in your opening statement about how much of the resources committed from the public sector were making it to the ultimate beneficiary instead of being channeled off even when done legitimately, let alone when done illegitimately.

Secretary KEMP. Right.

Senator SARBANES. So I think those are all questions that we're going to have to tackle here, and perhaps we can fashion a program.

What was wrong, in your view, with the Rouse-Maxwell approach of committing some Federal resources on this matching grant basis to State and local entities and requiring them to then develop an approach in their area that particularly suited the needs? I know it costs money and I'm sure OMB complained about it. Did you see any problem with it besides that?

Secretary KEMP. Well, first of all, I alluded in my opening comment to the good work done by both Jim Rouse and David Maxwell and it continues. They are both very, very thoughtful and positive contributors to not only legislation in the Congress, of which Senators Cranston and Al D'Amato have helped to formulate, but they have contributed I like to think to some of the lessons that I have learned and some of the elements of HOPE.

I think the question of construction is an issue that is going to probably be as keenly debated over the next few weeks in this overall debate over national housing as anything else. I shouldn't say this being a conservative Republican, but I think money is far less of an issue with me than whether or not we go back to programs that led to some real flaws systemically or poisons in the system which have led to the abuses that you decry and so do I.

Their construction programs are not targeted, in my view, very correctly, they are costly, they are inefficiently administered, and I am not sure that I would want to take Federal resources and give them over to the States for them to do at the State and local level to emulate the mistakes that were made in the Federal level.

Every time you mention Reagan construction cuts, my mind goes to the program that was abused by a couple of developers from California whose names need not be mentioned, but come with me sometime and take a tour of housing communities in the District of Columbia in which people have made windfall profits who live out in Beverly Hills, and I'm not against living in Beverly Hills, but I am against leaving people in conditions that are worse than Swatow.

Senator SARBANES. But you could monitor those programs.

Secretary KEMP. It's pretty tough to monitor, Senator.

Senator SARBANES. Let me ask you this question very specifically because we've got to try to get to some specifics.

Secretary KEMP. I agree.

Senator SARBANES. When you were here before us at your confirmation hearing you stated more than once in the course of that hearing that you did not want to deplete the housing stock, and of course the Congress had expressed the concern about this problem by language in the 1987 housing bill that would require a one-for-one replacement of public housing units if any were sold.

Secretary KEMP. Right.

Senator SARBANES. And that you wouldn't sell them off and decrease the amount of housing that was available.

Now Dick Darman himself stated in his budget message that there are 3½ million very low-income households that pay more than 50 percent of income for rent. Many, many of the people in public housing are 50 percent of median income or below. Now

you're going to sell these housing units and you're going to have to construct a system to do that in order to provide the funding for its purchase, but what about the problem that you then decrease available housing for very poor and low-income people?

Secretary KEMP. Well, you alluded to the law which suggests that there has to be a one-for-one replacement of any unit that is converted to a homeownership equity position by a public housing family. We are committed to one-for-one replacement. We would like some flexibility, but we think that there can be through rehabbing, there can be through vouchers and a number of innovative tools can be used to make sure that no low-income housing stock is lost to the country.

And I want to remind you that it also is in the law according to the 1987 Housing Act that the public housing community, I mean the families that buy say public housing, it is to be kept for low-income people. They can have title to it and they can leave it to their children, but it cannot be sold off to a speculator.

Senator SARBANES. Does your proposal require the replacement of a unit of public housing that is sold in every instance?

Secretary KEMP. I'm sorry, ask me the question again.

Senator SARBANES. Does your proposal require the replacement of every unit that is sold from public housing?

Secretary KEMP. You would have to define the low-income stock as part of the stock if it were in the hands of low-income people who were just being given a chance to own rather than rent. It's still low income and it can't be sold off to a developer.

Senator SARBANES. My understanding is you don't require any replacement of the unit if a condition is attached to it that it can only be resold to people with incomes below 80 percent of median; is that right?

Secretary KEMP. That's right. It's not being lost to the stock, and we don't want any low-income person pushed out of his or her assistance. So the assistance would continue if they chose not to buy, but if they buy it's still going to be part of the low-income housing stock. You just transfer it to this limited equity position formed by the residents themselves, but it's still perpetually in the low-income housing stock of America and you're not really diminishing it.

Senator SARBANES. Well, except the people in the public housing are in lower incomes as a general proposition than the 80 percent rule.

Secretary KEMP. Well, we are asking the Congress for the flexibility in replacement efforts because of the different market conditions throughout the country. We would like to count public housing new construction or rehabbing or 15-year section 8 vouchers and certificates and other net new additions to the low-income community as housing stock for purposes of the definition of the replacement issue.

Senator SARBANES. Well, Mr. Chairman, my time has expired, but I think this kind of illustrates one of the things we're going to have to go into very carefully with the Secretary here, because it seems to me that what is happening in effect here would be a depletion of the housing stock available for low-income people, particularly the lowest income people.

Now it seems to me one of the things we want to get at in the course of shaping this legislation is to try to identify, and it goes to something the Secretary said before, that some public housing in this country has worked very well, and some hasn't worked well at all, and you need to identify the reasons for that. Even within a particular housing authority in a given location some has worked very well and some has not.

But I keep coming back to the fact that there is not a sufficient supply of housing for low-income people and we have to find some way to enhance that supply, the availability of housing for low-income people. I don't know how people can pay 50 percent and more of their income each month at these low-income levels and meet the rest of their needs for their family.

Secretary KEMP. Well, I don't disagree with that. I just want to make sure that as we look for a solution to this problem that we maximize the impact of the Federal dollar, i.e., a resource in helping the family, and I'm not sure the construction of the housing is as effective in getting as much assistance to low-income people as it was to try and rely on direct Government programs of construction.

That is a question that is very much on my mind and heart, and I'm not trying to abrogate my responsibility of looking at this issue with intellectual and political honesty, but I have been overwhelmed by the failure of many of the programs that had good and noble intentions, but ended up causing a lot of disappointment, and I think we can get more dollars and more assistance in the low-income families by redirecting those resources.

Senator SARBANES. But that's what we have to find out. Now my understanding is that the program that the administration has submitted cuts significantly funding for 202 programs for the elderly and handicapped and public housing modernization money, and those programs in most instances have worked fairly well.

Some of the 202 housing for senior citizens has worked extremely well because you've drawn in nonprofit sponsors, and you take church groups and others who take a very keen interest in making that housing work and they have produced some good housing.

Secretary KEMP. I don't disagree with that. That has been a successful construction program, let me say to the gentleman from Maryland, and 202 is continued. It has not been severely cut. CEAP remains at the fiscal year 1990 level.

I made the point yesterday before the National Association of Housing Rehabilitation Organizations that I am committed to not only spending the money that is necessary for modernization of public housing, but our whole operation occupancy is aimed at that goal, and if we need more, I will ask for it, but we also are trying to unlock about \$3.4 billion, Senator, that has been put in a pipeline and unobligated by public housing authorities around the country. So we've got a big job to do to get that money out of the pipeline and into the rehabbing and modernization of public housing, and I also, as I said, have been a strong supporter of what has been a good construction program in senior citizen and handicapped housing in 202.

Senator SARBANES. Fine. Well, we look forward to this effort that we are now going to enter into jointly. I have no difficulty with

most of the general propositions that you've enunciated, and I have enormous respect for many of the people in cities and towns all across the country who on their own initiative, and we've got them right in Baltimore and in other towns in my State.

But at some point we are going to have to come very much to grips in a very tough minded way with the amount of money, now it is going to work, what it's going to mean as best as we can project it in terms of the availability of housing stocks and housing costs and how you best create this public/private partnership that Senator Cranston referred to and which was at the heart, as I perceived it, of the Rouse-Maxwell report, which I for one thought was an extremely positive and constructive contribution to this debate.

Thank you.

Secretary KEMP. I don't disagree.

The CHAIRMAN. Senator Graham of Florida.

Senator SARBANES. I apologize to Senator Graham for imposing on his time.

Senator GRAHAM. Thank you, Mr. Chairman, and Senator Sarbanes.

I have a couple of specific questions and a third more general question.

Going back to the hearing that we held in Tampa last Friday, one area of concern was the section 8 program. There was a lot of enthusiasm which greeted your statement of August 31 in which you stated "It is the policy of the Department and the Bush administration to replace all expiring certificate increments with new 5-year contracts."

There was therefore some dismay at a letter dated March 8 from the Jacksonville regional office to the president of the Florida Association of Housing and Redevelopment officials which stated, among other things, that there are 36 section 8 certificate programs which potentially do not have enough budget authority to cover the remaining term of their annual contributions contract and that there are 9,017 section 8 certificates within the State of Florida which will reach the end of their 15 year term by December 31, 1991, and that this office has been notified that funds will be made available to fund 800 replacement certificates which will be for 5-year terms.

Is this an anomaly, the gap between what the stated policy is and what the Jacksonville regional office thinks their resources are going to be?

Secretary KEMP. Well, I made a pledge to you, Senator Graham, and to the Congress and to the residents who are our client in this that we would renew all, 100 percent, all expiring section 8 contracts, and if there is an anomaly, we will move as swiftly as we possibly can even as we speak to make sure that the Jacksonville office knows the feelings of the Secretary, or that I go back and request more monies necessary to fulfill that commitment that President Bush has made and Secretary Kemp has made and I know Bob Graham wants to make.

So I can't tell you that I know exactly what that letter from the Jacksonville office reflects, but we will sure move swiftly to clear up that misconception or anomaly, as you put it, and call you

within 24 hours of clearing up that discrepancy, and I thank you for bringing it to my attention.

Senator GRAHAM. The second issue, which Senator Mack has alluded to, as I heard your response to his question relative to the success of the Kenilworth investment, I sense that you saw that as somewhat of a role model of a successful, albeit significant investment in the upgrading of a community.

The concern that was expressed at the Tampa hearing was that while the Kenilworth project for I believe something less than a 1,000 units was getting over \$30 million, that in Florida for 40,000 units they had received approximately \$13 million.

If the Kenilworth project is the success that we hope it is, should it not be replicated in other areas where there is the potential of achieving the same level of success?

Secretary KEMP. Well, I would like to do the same thing in a lot of other places around the country. That's one reason why folks from Pittsburgh came all the way by bus from Pittsburgh because of their enthusiasm for what we are trying to do, and I've seen that enthusiasm not for Jack Kemp or for George Bush or any one person. I have seen the enthusiasm for the idea of allowing this paradigm to be emulated in other parts of the country without having it forced down people's throats.

The cost in Kenilworth is totally related to the cost of the implementation of the District's public housing modernization efforts. It took a long time. There were disputes, there were delays and there are people who are far better able to give you chapter and verse in how CEAP programs in D.C. were not only delayed, but were in some cases mismanaged.

I share outrage over any cost above that which would be prudent and businesslike, but I'm not going to let that deter me from supporting the type of public funds necessary to emulate in a more businesslike approach this model for other parts of the country, and I would love to present to the committee and to you, Senator, a short booklet which gives about 15 or 20 examples of how it is working everywhere from Nashville, TN to Newport News, VA to southern California and Florida.

I am just trying to make sure that every tool available is utilized positively and progressively to get ownership opportunities out there in front of people who heretofore have been locked out of the American dream that my mother and daddy had when they were living in the suburbs of Los Angeles.

So we can I think learn from Kenilworth-Parkside, and think that everything we do should be aimed at bringing down the cost, but it has taken over 15 years to modernize Kenilworth-Parkside. I mean they were treated rather shabbily, and we hope to clear it up.

Senator GRAHAM. Mr. Chairman, my generic question, and given the fact that we're almost at the end of my time period maybe could be responded to in writing subsequently, is I sense that one of the fundamental reasons that we have some difference in approach is because there is a difference in defining what the problem is. Before you can be a prescriber of a solution you have to be a diagnostician to understand what is the current state of health or illness of your patient.

Secretary KEMP. Right.

Senator GRAHAM. I would be interested in two related issues.

No. 1, is what is your definition of the health of housing in America, and what are the problems with housing American families?

And, No. 2, what will be your quantifiable standards by which a year, 3 years or 5 years from now you will put a thermometer in that patient and determine whether your diagnosis was correct and/or your prescription based on that diagnosis was adequately remediating for the patient?

Secretary KEMP. Well, that's a great question because I think the ultimate test of Government assistance and, as I said earlier, the ultimate test of our welfare system, and welfare is not a pejorative, but welfare is a very positive concern that Americans should have for what Mr. Riegle said was the condition of the whole family, including the weakest elements of the family or the wounded elements of that family, or the members of the family that have been left behind.

But I want you to know that I will measure the success of welfare in America not by how many people need government assistance, but by how few need it and how quickly we can move people through the Government assistance phase of their lives and onto that ladder of self-dependence, independence, self-starting and that type of thing that you and I talk about a lot, but all too often is smothered by a system that rewards the exact opposite that was rewarded in your life or in my life, to be frank about it, and I don't believe we should treat people as if they are going to be perpetually poor or living perpetually in public housing.

One of my complaints about the whole debate over public housing is the treatment that we have about those folks. They don't want to spend the rest of their lives in public housing, and I'm not sure that it's the sole measure of our public housing policy that we ought to measure how big the stock is. I don't want to reduce the stock. I want to expand the stock. I just want to reduce the number of people who need low-income housing and the interest rates that impact upon it, regulatory barriers.

I mean housing in 1990 dropped from 1.9 million a year to 1.3 million simply because long-term interest rates went up 200 basis points and if I'm going to look at the housing in 1993 or 1992 or wherever, I realize that I'm up against a heck of an enemy, which is not of my own doing.

High, long-term interest rates and barriers to affordable housing caused by regulations in some States and in some communities that have pushed the ability to build housing for low-income people off of the charts in terms of the cost and how we can get the best stock to the people who are needy is the sole goal of my staying at HUD. I promise I'm not there for any other reason than to be a Secretary of Housing and Urban Development.

I mean that is my goal in life, and working is a pledge that I will keep, but I want us to be intellectually and politically honest enough to look at some of our faults in past programs and be willing to counteract them if we can get more money into the hands of needy people and get them out of the support system and onto the ladder that we call the American dream.

The CHAIRMAN. Senator Graham, would you yield at that point just for a comment and question.

I just want to say personally that I agree with the idea of trying to move somebody through the public housing experience and aspect of their life and out into homeownership or improving economic opportunity and circumstances for that person. You and I see that exactly the same, and I want to keep the pressure and I want the remedial services and I want to help everybody get out and get on that other ladder.

On the other hand, all the data shows that we're having a large number of people that are going the other way, and in a sense they are falling out of public housing or out of assisted housing and ending up living under bridges and in cardboard boxes and on hot air grates all over this city. I mean we don't have enough hot air grates in Washington right now to go around in the wintertime.

One of the things that troubles me and, as Senator Sarbanes said earlier, we're going out tonight to conduct a special census of homeless people in the country.

Senator SARBANES. They have doing this census since 1790, Mr. Chairman. Every 10 years they do the census, but never before has there been a perceived need to construct a special process by which to count the homeless.

The CHAIRMAN. And I know in making my comment, I know your concerns and sympathies run the same way, but the one thing that I want to be sure that we really have a fix on is do we have enough public housing units or assisted housing units in one form or another to meet the need that is out there at the same time we're trying to sort of mainline people through this experience and get them out into self-sufficiency.

I want to make sure that there are enough decent shelter opportunities and roofs over people's heads so that we don't have this burgeoning situation that starts to look more and more like something out of the 1930's where you had dispossessed people. Obviously the circumstances are not exactly the same, but the results seem to be the same.

I just tell you, I've been going around homeless shelters in Michigan, and what I'm seeing around the State of Michigan, and we've put together a homeless task force and we're going to be having a hearing on that in Michigan just a few days from now.

But having gotten deeply into that problem, I find that as I got into homeless shelters that increasingly I'm seeing families. I'm seeing single parents with children, and I'm seeing children, everything from infants that are being carried in their mother or father's arms up to children 2, 3, 4, 5, 6 years old and in every homeless shelter that I visited the people that run it say to me that the number of people that they are being asked to deal with is larger than they have ever seen before and is growing.

Now that is anecdotal and that is one State, but my colleagues from around the country are saying much the same thing to me in terms of what they are seeing. I make this interjection simply to say that I think in terms of how we do this measurement, which others have asked about and Senator Graham asked about in terms of where we are a year from now or 2 years from now, I think we have to make sure that we are maintaining some adequate stock of

housing units that meet certainly minimum standards so that we don't have a growing number of people in cardboard boxes living under bridges, and I'm not sure that we have nailed that down here.

That's a resource issue, whether it's private sector, public sector, partnership or what-have-you, and we're not going to have the units if somebody doesn't make an investment. An investment means that somebody has got to put something on the table, and I want to make sure that we're not kidding ourselves about getting that block of housing alternatives in place that is sufficient to meet the need.

Secretary KEMP. Well, that's a powerful question and statement and it's one with which I agree in a very large part with what you just said. I have been humbled considerably by our studies at HUD of homelessness and my trips, anecdotal and otherwise, because you're right, it is a housing issue and yet it is a clear issue. It is a shelter issue and it's a rehabilitation issue. It's a job training issue and it's a family breakup issue, it's a battered woman issue, it's a repairing of children's lives issue, and it's an issue that is just so encompassing in terms of some of the social pathologies that we see reflected in some many part of the country, that I am persuaded that housing, while it's a part of it, it is not the sole answer, and we really do need to tie care and treatment.

By saying that, I don't look down on anyone who is less fortunate, but I do realize that we have a big job. The President has called for fully funding McKinney. We're going to spend about \$1 billion in 1991. That's up from \$600 million in 1989, and we should do more, but we should do more in the way of making sure that the problem that the individual person has or the family or the woman or the man or the unemployed or this person who has fallen through the social welfare system is treated as a person, rather than just treated as somebody who is isolated from this massive Government that says here is the shelter and then neglects all their other needs.

Without giving a speech on the subject, or filibustering on it, I've been overwhelmed by some of the great work that is being done by nonprofits all over this country, churches and synagogues taking care of needs.

I've got to tell you, Senator, and you know this as well as everybody does today, the drug problem has manifested itself in the breaking up of families and single-parent families and that is a huge problem, battered spouses and children who have been neglected and who have left unhappy home experiences.

The more I look at this, the more convinced I am, Don, that we need to totally revamp our social welfare system and turn it from a passive system to what you and Senator Domenici and others have talked about in terms of reaching out and touching people where they are, because I can tell you when I saw those families at the Capital Inn Motel, the welfare motel that finally got closed down, I called the mayor one day and I said, look, I pledge to you I'll give you a voucher for public housing or a voucher for assistance to every single family.

And it turned out after a month that nothing was done, and I kept asking what has happened, and they said, well, we found out

that these people need a lot more than just a voucher. They need treatment, they need rehabilitation, they need assistance in job training and day care.

So I don't mean to dodge the very thoughtful question, but I'll tell you what, it is not just a housing issue. It is a much bigger and more complex problem.

The CHAIRMAN. You're absolutely right, although the part that we're responsible for is the housing part, and it is a centerpiece because if you can't get in out of the rain, or get in out of the cold and be sure that somebody is not going to hit you over the head or brutalize your children, you can't get much further. I mean housing is pretty basic in terms of—

Secretary KEMP. I'm not denying that.

The CHAIRMAN. I know you're not. I'm making my own statement about it. So we need all of the rest, and we've had in large measure I think a decade of neglect on this problem, at least that. The housing part, we've got to be very specific on.

Let me just pose one question before I yield to Senator Cranston again. An analysis has been done by the Senate Budget Committee, and Senator Sasser on this committee is of course the chairman of that Budget Committee along with Senator Domenici, the ranking Republican, and they have concluded that the whole program carries very little new funding, and in fact they are asserting that \$1.2 billion in what is called new spending, in other words, new initiatives, actually comes from cuts in existing Federal housing programs.

And I'm wondering to what extent, just in terms of the bottom line, the net bottom line, to what extent does this package provide for new appropriations for the HOPE initiative as a part from transfers or shifts within existing programs?

Secretary KEMP. Well, what we have tried to do, and this has been up front with me because I haven't said that the \$7.2 billion was all new monies. I have suggested that in all candor we have redirected the resources of the Federal Government toward a better and more efficient, and we think more effective use of taxpayer dollars. I mentioned that it's \$7.2 billion, and there is no doubt about it, we want to use the Tax Code and we want to use our subsidies, we want to use our grants and we want to get the States involved to the extent that we can be a better partner, which has been alluded to several times by both Senators Cranston and Sarbanes.

We've taken the section 8 Mod Rehab Program that was flawed and used moneys. We took the special projects' moneys, the Secretary's discretionary account, which finds its way somehow into perpetual eternal life in one way or another, but I tried to take \$90 million of secretarial favoritism account, which is what it should have been called, and put that into HOPE. We've used 202 programs, we've used shorter-term contracts for property disposition, and we've redirected all of our programs at HUD towards the goals that are outlined in my testimony. So I don't claim that it's all new money. The new money is for the expiring section 8 contract.

The CHAIRMAN. I think you've been very forthright about that, but in terms of then the net amount of new money, is there any net amount of new money here?

Secretary KEMP. Well, the new money is, as I said in my testimony, using every available resource rather than only counting it as outlays, and I guess in outlays it's pretty close to last year's budget. The BA has gone up because of the expiring contracts, and we've made no attempt to disguise that.

The CHAIRMAN. But just to pin the number down——

Secretary KEMP. Oh, it's a very slight increase.

The CHAIRMAN. Can you tell us how much?

Secretary KEMP. Well, the \$78 million if you just looked at the actual——

The CHAIRMAN. \$78 million?

Secretary KEMP. \$78 million in outlays this year over outlays last year. That I think misses the point of what we are trying to do.

The CHAIRMAN. I understand, but we've spent all of the time so far this morning talking about the qualitative and priority shifts in program alterations and so forth. So I think we've given that a good full measure of time. I just want to make sure we've got the numbers very clear.

So what we're looking at is an increase in outlays of roughly \$78 million year to year on a base, on an outlay base of what?

Secretary KEMP. Did you say outlay or BA?

The CHAIRMAN. Well, I think you referred to the 78 million as an increase in outlays.

Secretary KEMP. I think it's only \$80 million in BA not counting the expiring section 8 contracts.

The CHAIRMAN. And that would be \$80 million on a base of what? So what are we talking about in terms of a percentage increase? I would like you to give us the numbers, and I just want to pause for a minute to get it now. I want to know what the percentage increase year-to-year is and budget authority in outlay.

Secretary KEMP. I'm told I have to subtract the expiring contracts, but the BA goes to \$23.7 million from 18 and, as I acknowledge and everybody thinks is a big disclosure, this suggests that it's for the expiring contracts, but last year everybody wondered if we would do it, and we did it and it has led to an increase in the BA. Outlays, as I said, are \$38 million over fiscal year 1990. Staff years go from 13,493 to 14,218.

The CHAIRMAN. Now did I understand in the outlays you said goes up \$38 million?

Secretary KEMP. I'm told by the statisticians that after you subtract the section 8 contracts it's a 1-percent increase in BA, a 1-percent real increase in BA subtracting the section 8.

The CHAIRMAN. That's net of the section 8?

Secretary KEMP. Yes, net.

Senator SARBANES. One percent real increase or 1 percent nominal increase?

Secretary KEMP. I must admit I haven't spent a whole lot of time trying to figure out what the percent increase was. I was more interested in the program, but I'll get those questions answered for you for the record.

Senator SARBANES. I am prepared to give you some credit for extending the expiring subsidies, but that——

Secretary KEMP. I don't want any credit for it, no, no.

Senator SARBANES. Listen, I think you should get some credit because I think you're on the line for a housing program and I think you're down there trying to get something. But just to clear up the budget figures, my understanding is that if you take out the money committed to renew the expiring subsidies, that the balance of the money committed for housing does not keep pace with inflation.

Secretary KEMP. Well, that's a subjective determination that you've made, and we can spend a lot of time on this issue.

Senator SARBANES. Well, I mean we ought to be able to determine it objectively.

Secretary KEMP. Let me make a point. In stopping the construction of housing in America, we have shifted those resources to aiding the families and low-income people significantly. So while you can count angels dancing on the head of my budget pen, we're increasing the number of families assisted in this budget considerably, and we have also moved from about 3 million people assisted to about 4.5 million or more, and I think it is a better direction of Federal tax resources.

The CHAIRMAN. All three of us are interested in this, and we're not doing it to be contentious. We just want to make sure where we're starting from so we're all clear on the same definitions and figures.

I've just sent down to the table, and I'll think you'll have it in front of you, and I want to make sure it is down there, the data that we've gotten from the Budget Committee that lays out the 1991 budget request on discretionary housing programs only, and it starts out on the sheet—does it have it down there?

Do you have it?

Secretary KEMP. Yes.

The CHAIRMAN. I just want you to take a look at this. The OMB baseline up at the top is a figure of 21,564. Then what the Budget Committee has done here is taken the additions, which we have been talking about here this morning, which add up to 2,540, and then the cuts, which add up to 3,061, to end up with a net difference of a minus 521. Now there are different ways to take and put these numbers together.

[Budget Committee information on 1991 HUD budget follows:]

1991 HUD BUDGET

Discretionary Housing Programs Only
(\$ BA in Millions)

OMB BASELINE		21,564
ADDS		
Modernization	1,847	
HOPE Grants	250	
Drug Elimination Grants	150	
Assistance for the Homeless	149	
Salaries and Expenses	65	
Urban Homesteading	36	
Policy Development	27	
Transitional and Supportive Housing	11	
Office of Inspector General	4	
Subtotal - Adds		+ 2,540
CUTS		
Subsidized Housing	(2,198)	
CDBG	(285)	
Sec. 202 Housing	(191)	
Rehab Loan Fund	(87)	
Sec. 8 Mod Rehab	(76)	
Rental Housing Assistance Fund	(70)	
Rental Rehab Grants	(63)	
PH Operating Subsidies	(43)	
Nehemiah	(25)	
UDAG	(10)	
Congregate Services	(6)	
Emergency Shelter Grants	(5)	
Fair Housing	(1)	
Housing Counseling	(0)	
Subtotal - Cuts		- 3,061
NET CHANGE IN HUD BUDGET		- 521

Secretary KEMP. Let me come back. I'll tell you. If you need a Housing Secretary that can sit here and interpret this, I'm not your man. I will come back and give you an answer, and I pledge to you that, in 24 hours. I can't sit here and figure in my mind how this is worked, but I'll be glad, Don, to come back and have a hearing solely on this issue, if that's what you would like. I just can't possibly figure out—

The CHAIRMAN. Well, I'm not asking you to necessarily do this because this is a lot of detail, and I'm not asking you to be an instant expert on it. But I will say this, there should be somebody in the room who runs the budget show for you who is an expert on this—

Secretary KEMP. I'll bring Mr. Kliman up and you can—

The CHAIRMAN [continuing]. Who ought to be able to give us a direct answer on this.

Secretary KEMP. If you want a direct answer, you'll have a direct answer.

The CHAIRMAN. I'm not trying to create an awkward situation for you.

Secretary KEMP. It's awkward for me because I'm not prepared to answer a statistical chart that leaves me naked in front of the committee because I don't have the answer.

The CHAIRMAN. Let's do this, and I was going to ask that we do this in any case, and we can fold this issue into a larger set of issues. I want to establish a practice here that whenever we're going to take on a major legislative initiative where we really are going to work together on it, that following this hearing, which is the effort to present it in sort of qualitative terms, in summary terms, I want to within a matter of 2 or 3 days after that have your senior staff and our senior staff, both sides, sit down in a working session that might 2 or 3 hours and just go back and forth on any and all issues and questions and so forth.

Secretary KEMP. You have our absolute commitment to put our senior staff together with your staff as long as you would like.

The CHAIRMAN. Great, I was sure that would be your answer. Now I gather that we've got a meeting of that sort scheduled for Thursday of this week. So I want to say to you that we'll have all of our senior staff people present and it's very important that yours be there as well, and then we can get into that further level of detailed discussion which I fully grant it's not easy to do in the kind of specific detail on each and every item, and that then will be one of the items that can be discussed at that point to make sure that we understand exactly what we're talking about in terms of additions and subtractions.

I want to say again, I don't ask that question with the thought in mind or any suggestion that anybody is engaging in any sort of slight of hand. I don't believe that and I know that is not the case.

By the same token, we've got to be crystal clear here as to exactly what we're talking about. I want to make sure that we understand what the add-ons are, what the deletions are and whether we're ahead or behind where we were before, and it's a garden variety question that we can't get an answer to.

Secretary KEMP. I'm not at all offended by the question. I only need overnight to give you the answer you deserve.

The CHAIRMAN. OK, very good.

Secretary KEMP. And I want to assure you, however, that I hope our debate goes forward and I hope your staffs realize that the debate ought to go forward, not just by institutionalizing every single program that ever took place at HUD in the past because I can tell you, Don, there are a lot of lousy programs at HUD, and we are trying to revamp it and reform it and aim it in the right direction.

So I've tried today to outline the direction, give you the broad parameters and I know we've got to fill in the blanks just like you do on Cranston-D'Amato, because I can tell you, you left out in Cranston-D'Amato the whole issue of preservation.

Now if you want me to just debate whether or not the dollars are exactly the way they were in the past, I can tell you up front they are not. We have changed the direction of HUD and we have changed the way we're going to spend our money, and I expect in this debate we are going to end up having to change HOPE and you are going to have to change some of your ideas if we are to get that synthesis to which you and I have both pledged cooperation.

I'll get you the answer on this, but I just cannot give it to you off the top of my head or even in all my briefing books, but I'll get it to you soon.

The CHAIRMAN. No, I understand that, and I want to make one other point with respect to this, and I'm not sure we're going in different directions, and I don't make the presumption that we are.

Senator Sarbanes earlier talked with respect to the section 202 housing program, and we show that as having a cut of \$191 million, a very important program. We've got a lot of seniors out there that are lined up trying to get in places and can't because there aren't enough places for them. You know, we're living longer and people have got to have opportunities to live in appropriate circumstances.

So just for openers, I don't know whether we can properly or wisely envision a cut of that size and whether that's a good policy move in and of itself with respect even to consideration of all of the other changes we want to make. I only take that hypothetically, but it's a very important issue, and we want to help you get this job done.

Secretary KEMP. I appreciate that.

The CHAIRMAN. I realize that it's not an easy sell within the administration, and I think you've shown real leadership in that area.

Our obligation, however, is to write the law. We write it here, and we want your input and your thinking and your recommendations, and we give them enormous weight. But the responsibility for writing the law is ours and not anybody else's.

Secretary KEMP. Absolutely.

The CHAIRMAN. Not anybody in OMB, nor anybody in the administration nor any other place. So that's our job and we want to do it right. I can assure that there is an intense interest here that is the mirror image of your own. So we're moving in the same direction.

Secretary KEMP. You're preaching to the choir.

The CHAIRMAN. But we're not going to be bashful about making it clear if we think some of the cuts that are in here, and it doesn't

matter to us whose thinking they reflect, if we think they are not appropriate, then we're not going to buy that. We may have to seek additional money, we may have to make other shifts around here or there and, as you say, there is going to have to be give and take all the around.

I don't presume, however, that the total dollar figure is by itself as we start out adequate. I mean my mind is open on that, and as we analyze this and look at it we'll have to make a judgment about it. If it becomes clear to the view of the majority of this committee that more is needed, then we are going to seek more because that is our responsibility.

Secretary KEMP. Good for you. This was not handed to you in tablet form. Kemp didn't come down from some mountain and say here it is in concrete. It is offered as a measure of good will. You have raised some legitimate questions, and I'll get you the answers.

Bringing up specifically senior housing, I helped keep it in the budget, I stayed in it, I believe in it and we are not only constructing new units, but we are unclogging the pipeline and we're not really cutting the units because we believe we can get a senior citizen, particularly some who might be considered frail elderly, and they don't like to be called that, but that was a term that was used, we think we can get them into senior citizen housing quicker by leasing a unit in some cases than by constructing a new unit. So if you decide you don't like that, you'll turn me down and you'll want all of it in construction.

We offered it with good faith on the premise that it was a legitimate need and it's a legitimate program that we need both construction and leasing, and we've got to help people who are in need, and it's in that spirit that I offered my support for 202 and not in any desire to cut, and we don't think we've cut any units. We think we actually can get more people served by doing it with a number of tools than just by strictly constructing new units for senior housing. So it's in that spirit and not by trying to be disingenuous.

The CHAIRMAN. You won't hear me ever charge that with respect to yourself because I've never seen any evidence of your being disingenuous.

Before I yield to Senator Cranston, do either of you want to make any comment on this topic before we sort of close that subject, or do you want to raise it on your own time?

Senator CRANSTON. Well, I think we have had a very useful discussion. I look forward to the figures that we'll get and hope we can agree on them.

Secretary KEMP. Thank you.

Senator SARBANES. Mr. Chairman, I just want to say that I don't think there is a presumption here that every figure should stay the same, and obviously both the Secretary and we are searching for the most effective ways to meet the housing problem.

But I do think it's important to sort of know exactly where we are, and we discussed the 202 housing earlier, and we agreed it was a pretty good program and working very well and we needed it and so forth. And yet these budget figures show that it's taking a cut in this proposal, and that obviously has to weigh into the consideration.

Now maybe other things are being done that outweigh it, but I just think that where we are now is very helpful. I think we can get the senior staff from the Department up, and we don't want to make subjective judgments. In other words, we ought to be able to agree on what the objective facts and situation are and then go from there. If in fact the figures tell a different story than I perceive them to tell, I want to know that, and I'll revise my opinion and thinking accordingly.

So I think the proposal that has now been outlined for how to work is a very helpful one.

The CHAIRMAN. Very good.

Senator Cranston.

Senator CRANSTON. I yield to Senator Sarbanes for a brief statement he wants to make for the record.

Senator SARBANES. Mr. Chairman, I'm going to have to go, but I just want to read into the record an excerpt from an editorial that appeared in the Baltimore Sun, and I say to the Secretary I've seen similar editorial comments in other newspapers sort of around the country because we've seen a selection of some of those, and I think this is sort of in a sense part of the issue we're going to have to work out between us, and let me just quote part of it into the record:

President Bush's new housing initiative promoted by HUD Secretary Jack Kemp is a welcome departure from the initiatives of the Reagan years which drastically slashed Federal housing funds while its top HUD officials oversaw the plunder of several major programs.

I'm shortening it because they discuss some of the things you've proposed, and I indicated earlier that I welcomed the proposal.

But the administration's HOPE proposal does not represent a solution to the most serious housing problem faced by the poor. It's major focus is helping poor people buy the public housing units or subsidized housing they now rent. That's a goal worth encouraging. It's the American dream,

Which of course you've spoken to here this morning,

But it will not present the solution for the vast majority of poor people who rent their housing and who for the most part will continue to require decent and affordable rental units.

Many of the poor are forced to spend well over half their incomes to meeting their family's housing needs. In high-priced markets where their small incomes can't meet the need, poor families have been forced into emergency shelters to wait for public housing units to become available.

For many of those families the answer is a greater supply of public or assisted housing for rental. Any rational national housing policy should recognize the need for more subsidized housing in addition—in addition to try to help poor families realize the dream of homeownership.

And I just am hopeful that in the course of this process as we work with the Secretary that we will be able to develop a piece of legislation that will in fact represent a rational national housing policy as outlined here and really give us a chance to move forward.

The CHAIRMAN. Let me also insert in the record—

Secretary KEMP. Don, could I just make a comment real briefly?

The CHAIRMAN. Sure.

Secretary KEMP. With all due respect to the Baltimore Sun's editorial, they fail to mention how many vacant units exist in this country. It fails to acknowledge that there are different markets in

Houston and Denver. I pledge to you that we want to make sure that we respond correctly to the market conditions in different parts of the country. The west coast is different than the Sun Belt and the Energy Belt, and certainly Baltimore and Boston and New York are different than of course other parts. So I would acknowledge that.

There is tremendous need of rehabilitating the existing stock, Don. Don't fail to recognize that, and I know you don't. We should not fail jointly to recognize how much the stock of housing, both private and assisted and owned by the public is in need of repair, rehabilitation, and bringing up to higher standards of fitness and decency and affordability as you and Jim Rouse and others have all acknowledged.

We have 70,000 units of public housing that are in dilapidated, boarded up condition, and I would like to do everything I can, and I pledge to you to get the boards off, to get people in there and to get those units up to standards. I would like to take the assisted housing stock from Tyler House here in D.C., which pains me as a daddy to see children having to live in a condition that we thought had a noble goal, but left some developer rich and people poor.

So it isn't rhetoric with me. It is absolutely a commitment to you that I want to do the right thing with you, and I know I can't do it alone, and I know I don't write the laws, you write the laws, and you make all the cuts. All the cuts that took place could not have taken place without the Congress, and we can flagellate ourselves from now to dooms day, and we'll not make up for the policies of the 1980's or the policies of the 1970's.

And if we spend all our time debating Reaganomics or Jimmy Carter's economic theories, or mine or yours, we're going to miss out in the greatest opportunity we've had in the last couple of decades to move forward, and I pledge to put my senior staff to work with your senior staff and that of Chairman Gonzalez and Republicans to do that which is necessary to get forward advancing the policies that would help not only low-income people, but help alleviate.

We want to tie jobs to housing. How can you talk about housing and not talk about jobs that give people the income? How can we neglect the fact that there aren't enough jobs out in those urban pockets or rural pockets of poverty where people get the income with which to afford to buy, rent or whatever. We want to use FHA, and we want to use IRA's and we want to do many of the things, Senator Cranston, that you've talked about, and we'll have a debate over money and that will be a good one, and I think there is more flexibility there perhaps than you would have first imagined from us.

On the other hand, let's make sure that we are wise enough and courageous enough to correct some of the lousy mistakes that were made in the past in the name of noble intentions, and I pledge to you to be equally intellectually honest with what you present to this administration.

Senator SARBANES. Well, let's work on that basis. I think that's encouraging.

Let me simply say, Mr. Secretary, if you can say, look, we think instead of building new units here, we should rehabilitate existing

units that will provide housing that is not now available, and we'll do it quicker and cheaper, I'm prepared to follow that path.

Secretary KEMP. Thank you.

Senator SARBANES. But I don't want to have a situation in which the net result of what you're doing is one, first of all, of fewer units or, second, and this is a more ambitious goal, inadequate units to meet the need.

Secretary KEMP. Well, one radical idea would be to reduce the number of low-income people in America. How is that for a radical idea? Seriously, we ought to reduce the number of low-income people. We've got to fight poverty and not treat people as if they're going to be perpetually poor, and my passion is not reserved for this committee.

Senator SARBANES. I understand that.

The CHAIRMAN. We're all for that.

Senator SARBANES. Even your program doesn't address that because it's broader and we don't have that.

The CHAIRMAN. And I guess, too, we also, we're passionately committed to that goal, as you are, and we'll work with you on it, but in terms of where somebody is going to sleep tonight in the rain and the cold, we've got to make sure we've got housing that gets this job done.

I want to insert in the record an editorial from the New York Times of February 18 that is along the lines of the Baltimore Sun one just so it's in the record.

[The editorials to be supplied for the record follow:]

From the Baltimore Sunpaper, Nov. 15, 1989

Bush's Housing Initiative

President Bush's new housing initiative, promoted by HUD secretary Jack Kemp, is a welcome departure from the initiatives of the Reagan years, which drastically slashed federal housing funds while its top HUD officials oversaw the plunder of several major programs. Mr. Bush has outlined a plan to spend \$4.2 billion over three years and devote \$2.65 billion in tax expenditures to expand affordable housing. After eight years of dwindling housing supplies for poor and modest-income families, this can be viewed as an improvement in the White House approach to a national crisis.

But the administration's HOPE proposal (Homeownership and Opportunity for People Everywhere) does not represent a solution to the most serious housing problem faced by the poor. Its major focus is helping poor people buy the public housing units or subsidized housing they now rent. Mr. Bush would achieve this goal through a three-year program of grants to move poor families "up and out and into the ranks of homeownership." That's a goal worth encouraging; it's the American dream. But it will not present the solution for the vast majority of poor people, who rent shabby housing and who for the most part will continue to require decent and affordable rental units.

Many of the poor are forced to spend well over half their incomes to meet their families' housing needs. In high-priced markets such as New York and Washington, D.C., where their small incomes can't meet the need, poor families have been forced into emergency shelters to wait for public housing units to become available. For many of those families, the answer is a greater supply of public or assisted housing for rental. The federal government has refused to help on that front for years. In Baltimore, housing commissioner Robert Hearn says the city has been able to build only 600 units of public housing since 1980. There's been no federal money at all for public housing since 1984, though local authorities are receiving funds from Washington to help with programs to modernize public housing units.

Any rational national housing policy should recognize the need for more subsidized housing in addition to trying to help poor families realize the dream of homeownership. Any honest proposal also should be accompanied by a plan for financing it. Mr. Bush gives no clues on how he would do that, which suggests he would simply increase the federal deficit — even as he excoriates Congress for its failure to cut it.

From the New York Times, July 18, 1990

More Hype Than HOPE

The Bush Administration's new housing initiative, announced with great ballyhoo by the President and Housing Secretary Jack Kemp, certainly has a ring to it. HOPE, it's called, the last word in inspirational acronyms: Homeownership and Opportunity for People Everywhere, a package filled with promising programs.

But hype aside, the numbers don't add up to much. Except for a new focus on converting public housing to tenant ownership and a small but genuine effort to address the homeless problem, HOPE is mainly a menu of familiar strategies. Like the rest of the President's domestic program, HOPE is long on talk and short on money.

The most troubling aspect of this housing strategy is what H.U.D. has not proposed: a national housing policy concentrating on those who most need help. Nearly 11 million low-income households that receive no public housing assistance need help. The proposed \$23.7 billion H.U.D. budget will not go very far toward helping them.

There's no funding at all for new public housing, no substantial effort to encourage private industry to build low-income housing. HOPE's centerpiece is a plan to help people already in publicly assisted housing buy their apartments.

H.U.D. officials acknowledge they'll have to use even this program judiciously. Tenants in public housing who buy their homes and apartments will at some point lose the Federal subsidies that now allow them to pay only 30 percent of their incomes for rent. There's another problem with tenant ownership. Successful public housing projects include a

mix of people, ranging from very poor and troubled people to stable families. Once Government moves out, the new tenant owners are understandably likely to keep out "undesirables" — often precisely the most troubled and most needy.

The HOPE conversion proposal is a welcome tool to help save some troubled housing projects. But tenant ownership is no substitute for a real housing policy. The programs aren't there, and neither is the money.

Consider total H.U.D. spending. It includes \$7.7 billion in existing subsidies that are expiring and have to be renewed. If that's taken into account, along with inflation, H.U.D.'s request for the next fiscal year is actually down a bit from 1990. It cuts several programs and proposes that 82,000 new households get public housing assistance, compared with the 109,000 requested last year.

HOPE itself carries very little new funding, despite H.U.D. news releases. It borrows from other programs, one reason for the cuts. If America is to have a true housing policy, there are three approaches:

The Federal Government can build public housing the way it used to, unpopular but still generally successful. It can provide more vouchers and certificates to poorer people to help them afford rents where vacant housing is available. And it can provide long-term, high-rate incentives to encourage banks to underwrite housing development.

The pretty, mostly empty package called HOPE provides none of the above.

The CHAIRMAN. Senator Cranston, I'm going to ask you now if you will—

Secretary KEMP. If I get a chance to the American Society of Newspaper Editors, I'm going to take them on on their statement that it's all political hype and not substance because you cannot fail to recognize that we are redirecting and rechanneling and rehabilitating an agency that not only lost creditability, but had not served the needs of low-income people, HUD. No one has allowed the chips to fall where they may more directly than Kemp at HUD, and I'm not taking the personal credit because I've got a lot of folks who are helping us here and down there.

We would be missing the point if the only debate is over money because I can tell you if you only look at the Federal budget as what represents America's commitment to this economy, then we're a \$1.2 trillion Nation, but if you look at the GNP it's \$5.5 trillion, and then if you look at the private assets of America it's \$25 trillion. Then if you look at the global excitement over a interlocking, interdependent world of trade and investment and opportunities, I am absolutely convinced that we could do a heck of a lot better of unleashing resources on this problem of poverty and creating more wealth and more opportunity for people than we have done up until this time.

I want to do that with you, and I'm convinced that that little debate over trade that we used to have, and you and I were on the same side of the free trade zone with Canada, and that has done more for my home-town of Buffalo than all of the UDAG grants that were ever given to the Hilton Hotel chain.

The CHAIRMAN. And there were a lot of UDAG grants that went into Buffalo as they did go into Flint.

Secretary KEMP. I fought for them, too.

The CHAIRMAN. I know, and so did I. I mean it's not as if we told them not to put them there.

Secretary KEMP. My point is we give UDAG grants to big wealthy hotel chains who have access to credit and we let low-income people live in red lined communities.

[Applause.]

Senator SARBANES. That's right, and that is a very good point, and what we're searching for here is a program that is going to work for low-income people to provide them housing.

Now this committee has been with you on trying to correct the abuses of HUD. These members at least of this committee have been in the forefront of these other efforts on the broader issues that you've been talking about of poverty in America. But if we're going to get a housing program that is going to work, we've got to come to grip with it with some very tough thinking about what the programs are going to be and how much money is going to be put there.

Secretary KEMP. I agree.

Senator SARBANES. And we are going to push you on some of those issues because our perception, very frankly, Mr. Secretary, is that you are being hemmed in and constrained within the administration in terms of the commitment that can be made to this problem.

Secretary KEMP. We're more constrained than you are by the same stupid debate over the deficit that is keeping your party from doing some good things.

I mean let's face it, Paul, you and I are locked into an environment in which everybody is looking like certified public accountants with green eye shades on the sole source of our economic help as what is the deficit or what is the trade balance. I think it's ludicrous, I think it's mercantilistic, I think it's negative, and I think it denies the fact that this country has a lot more going for it than just trying to figure out whether we have, and I say this as a good, solid conservative Republican, but I don't consider a balanced budget to be the sole goal of U.S. economic policy, and I don't think we ought to balance it off the backs of poor people, and I think we can do a lot better if we could begin to think of how this Nation can expand the wealth or our cities which are unlimited having the type of people that I have seen and you have seen from Baltimore to Boston to Buffalo, New York, and I'm willing to work with you.

But, look, you're going to test me and I'm going to test some of your assumptions because it won't be a very healthy debate if we don't look at each other square in the eye and we're fighting for a synthesis, you know, a convergence of goals, but we're willing to acknowledge that there have been a lot of mistakes made in the past that should not be done again even though they had noble intentions.

So I pledge to you to be tough and to expect to be treated with tough questions, but you have to take it equally on your shoulders to be intellectually tough enough to defend some of the stupid policies that took place in this country in the past in the name of fighting poverty by treating people as if they were going to be perpetually poor.

Senator SARBANES. I don't have to be intellectually tough to defend them. I have to be prepared to jettison them if that in fact is the case. There is a very fundamental difference between those two things.

Secretary KEMP. I will buy your language.

The CHAIRMAN. I want to add one other thing to the debate. The reason we're here at 10 minutes to 1, all of us, is that this matters a great deal to us. It matters to you and it matters to us and we're deadly serious about it and that's why we're here.

Secretary KEMP. I'll stay, Mr. Chairman. I'll stay right now if you want to.

The CHAIRMAN. No, I'm not going to ask you to stay, but I want to make one other point here, and that is if we're not very careful as to how we do this with this resource mix and this program shift and the incentivizing and so forth, there is another great risk we run, and it's to some of the people that are in this room right now, and that is that we can create an expectation of success that in fact may be beyond what is possible with what is put in on the resources side, and I'm very sensitive to that, too, and I know you are.

I don't want to go out and create the notion that just per force that if public housing tenants can end up owning the building, and I know you're not saying, and I'm not trying to put these words in your mouth, I'm speaking my thoughts here, I don't want to create

a situation where there are people out there who think that there is a magic answer on its way that we may not be able to produce, and I know you feel as strongly about that as I do.

I just want to make sure that we keep everything within the bounds of realism because I think we need to make some changes, and my mind is open to changes. I'm not wedded to doing things the old way.

Secretary KEMP. Good.

The CHAIRMAN. But by the same token, you know, we can't do this with a magic wand. I mean there are going to have to be resources and programmatic follow-through, and it has got to be tangible and people have to be able to get their hands on it. One of the things that will show us that we're making progress is when we see people moving out of cardboard boxes and into housing units and we'll know we're making some net progress.

Senator Cranston.

Senator CRANSTON. Well, it's a very lively discussion we've been having, and very productive. I think we're moving toward an identification of the problem we face.

Reducing the number of poor people is certainly the best way to cope with this problem, but that's beyond the realm of this committee alone and beyond the realm of housing legislation. We do have to see to it that we do have the housing we need that's affordable, and that's not only for very poor people and people on the brink of homelessness or poverty. People with some reasonably good incomes right now cannot afford the downpayment for homes in many parts of the country, particularly in my State and in New York and some other States represented on this committee.

I want to speak about resources and ask you about two places where it looks like we may be diverting some resources from one place to another.

The HOPE grants would provide only part of the funds needed to transfer the ownership of properties to tenants. Your bill would authorize \$2 billion over the next 3 years, but an additional \$1 billion would have to come from so-called State or local matching. The bill explicitly says that matching money can come from Federal programs such as community development block grants, low-income housing tax credit and rental rehab funds.

The new program appears to be designed to draw resources out of programs that are already strapped for funds. Some of these programs are working quite well. Tax credits, CDBG and rental rehab are just about the only remaining tools for providing additional affordable rental units or stimulating neighborhood revitalization. But the administration's budget doesn't add funds to these programs to accommodate these new responsibilities.

So the question is: won't we have a hard time getting States and localities to divert scarce dollars as matching money to help solve the low-income housing problem when their waiting lists are huge and the administration is cutting back on housing assistance that they will be getting?

Secretary KEMP. Yes, I guess that's one way of looking at it. I look on it in a different way, however. I'm not totally at odds with you, Senator Cranston, but in the sense that CDBG monies have been used in the past to qualify for matching grant, as in the

UDAG program you could utilize CDBG money, we think CDBG money can be more carefully targeted. It is a resource, and it's not the only resource, but it is a resource.

We are trying to coordinate the programs better. We do ask the States to put up some money, and we think, frankly, that is an obligation. One dollar at the State level for \$2 at the Federal level, I don't know if that's the perfect mix or not, but it is at least the idea of a partnership. But we think the program overall will hold up if it is looked at in its totality using every single tool, including the Tax Code and all of the other elements of HOPE.

I guess when Paul Sarbanes said earlier that in Western Germany they were using a socially responsible market economy, I respect that. I respect Adenauer and Eardhardt for the socially responsible market economy. I think this is a socially responsible policy. It works on the safety net and it also works on the ladder of opportunity, and we need both. We need a net to prevent people from falling into the conditions alluded to by the chairman, and we need a ladder of opportunity out of poverty upon which people can climb.

And I refuse to believe that housing should only be looked at as a single component and not in its totality, because if we only look at it as housing, we're going to look at the conditions that people are in and look upon them in a static sense, and I'm not a static thinker, nor is this committee, and I want to think in terms of how we can take this static condition that has been imposed from on top on low-income people and how we can turn their lives into a dynamic or into an opportunity to climb.

So that's how HOPE was designed and fashioned. I admit that in every instance, Senator Cranston, it is not new money, but we think we have coordinated and redesigned this program to be more effective in the delivery of hope and opportunity in housing and homeownership.

Senator CRANSTON. The other diversion question I have, Jack, relates to rental assistance. The HOPE program would divert section 8 vouchers and certificates over to the lucky tenants of projects that happen to be sold. We've had precious few vouchers and certificates available for the millions of families who need them. People who are waiting for these vouchers are families with the most desperate housing situations, homeless people, families that are paying 50 percent or more of their income for rent and those living in substandard housing.

The proposed HOPE package would keep these families waiting in line and give top priority instead to families who are already living in public housing that is being sold. Take the sale of a 400 unit public housing project for example. Right now the tenants in those 400 units get low rents because of public housing operating subsidies and vouchers are available to help 400 other families. So all in all 800 families are being helped.

Once the project is sold under the HOPE legislation, the operating subsidies would be cut off and 400 vouchers would go to the tenants in the projects. So we're helping 400 instead of 800 families as I see it. How does that make sense as a long-term strategy or is there an answer to that?

Secretary KEMP. Well, there is an answer, and if someone has the opportunity to convert a publicly owned housing community or an assisted housing community to a resident management corporation with an eye toward ownership and fulfilling certain criteria, they would continue to be subsidized over a period of time to allow them to move from just owning to the type of independent living that you and I would assume is the dream of all people. So they would continue to get assistance——

Senator SARBANES. How would they be subsidized?

Secretary KEMP. We would convert operating subsidies to a public housing authority into a direct assistance to that community. Say at Cochran Gardens or Carr Square in St. Louis, if it becomes owned by the residents, we would take the old operating subsidy grant that would go to the PHA and it would go directly to the community.

Senator SARBANES. Would they also get a housing voucher in order to make the purchase possible?

Secretary KEMP. In some cases they would monetize the value of the voucher over 10 years and be able to buy. That would be the preservation strategy.

Senator SARBANES. If you do that though, I mean it's Senator Cranston's question, if you let them use a voucher, you've got a family in this unit and they are now getting public housing there and there is a voucher out here for another family. Now if that family moves to buy its unit and then has to use the voucher in order to make it possible, then what happens to the family that otherwise would have used the voucher?

Secretary KEMP. Well, we are asking for an increase in incremental units over that which the Congress gave us last year. So that would be one part of the answer. We believe that there has to be a post-sale subsidy on the tenants and the formally public housing community. So there is room for using vouchers and certificates and operating subsidies for the type of post-sale subsidies of the residents themselves to help get them on the road to independence.

Senator SARBANES. When you add all this up, would you be able to help more people than you're helping now?

Secretary KEMP. Well, that's my goal. If it proves that that is not the case, then we're going to have to reconfigure the way it's gone, but my goal is to help more people. That is exactly the goal of the HOPE legislation, and ultimately when that voucher has been utilized by a family or an individual who becomes independent, if you will, self-sufficient, if you will, then that voucher of that incremental unit can be utilized to help another low-income family or person in need. That I think was one of the very positive elements in the design of the voucher program, and I admit it is a tool, but it's not the only tool.

Senator CRANSTON. I think like the other issues we've agreed to work over, we're going to have to analyze very carefully exactly how that works.

Secretary KEMP. OK.

Senator CRANSTON. I have two questions that don't relate to the pending legislation, but two matters of common interest to us.

Under the thrift bill, Jack, the Federal Home Loan Bank Board was abolished. Part of its function was to regulate and oversee the Federal Home Loan Banks around the country that pump below cost funds into the thrifts. The Federal Housing Finance Board was created which succeeded to the authority of the Bank Board in addition to being given the authority to implement the new billion dollar housing program mandated by FIRREA.

The Federal Housing Finance Board is to be established as an independent agency with five directors with the chairman being a confirmable position. Since the passage of FIRREA in August, however, no names have been sent to Congress to fill the slots on the Finance Board. So it's in effect being run by HUD employees now.

Could you explain the reasons for this delay in setting up the appointments?

Secretary KEMP. Well, I admit, Senator, that it has taken some time to go through this very difficult start-up phase. To go from ground zero to a whole new way of regulating the Federal Home Loan Bank system has been a real challenge.

We think we've made progress. It's not being run by HUD, but it's being run by its Managing Director, Mary Bush, who was my choice for that job. She has put a team together with our help. We issued last March 2 the regulations that for the first time in the history will take the funds that were made available through FIRREA and the Home Loan Bank system of \$78 million or so leveraged against the thrift industry to use for affordable housing in low-income communities and help point towards that day in which we can totally erase the red lining experience in this country.

We have had a debate over whether it should be a full-time Board or a part-time Board. We think that is resolved by having a full-time managing director and a part-time Board which would be consistent with the Federal Home Loan Bank Board system.

We have made a lot of progress, and I'm convinced that there is a tremendous resource here that can be utilized on the affordable housing program, and I believe that in my role as the Federal Housing Finance Board Chairman de facto until the Chairman is confirmed and nominated, as well as my role on the Oversight Board at RTC, that we're making progress on the whole issue of affordable housing, which is the mission given to us by the U.S. Congress.

Senator CRANSTON. Well, there does appear to be some sort of a debate going on in the White House, if not in HUD, as to whether the board members and Chairman can be designated as part-time positions. Plainly the law intended that it be full time, and there is nothing in the legislative history to suggest otherwise, and it's plain that management of the Federal Home Loan Bank Board was vested in no one other than the confirmable slot for Chairman.

Is that a factor in this part-time/full-time business and, if so, what would the merits of that be?

Secretary KEMP. I'll be honest. I didn't think that it was explicitly designed in legislation that it be a full-time Board when the whole Federal Home Loan Bank Board system isn't in sync with the way the system is run right now.

I certainly will carry out the intent of the law if I am told that it has to be full time. We thought it would be far more appropriate in

this debate, and it's not just going on at the White House, but it's going on all over Capitol Hill and at HUD of how to design this system to take the role of the Federal Housing Finance Board to its ultimate conclusion. Has it been a debate? Yes.

If you're telling me it has to be full time, I certainly would take that into consideration. I thought that our lawyers were telling us it could be part time. There is certainly a full-time managing director. We are operating and it is moving forward. I doubt very much whether the type of men and women that you and I think could lend their talent and expertise to this Board role, I'm not sure that full-time meets the goals of the FIRREA legislation, but I'll be glad to investigate it with you.

Senator CRANSTON. Let's explore that together.

Secretary KEMP. All right, good.

Senator CRANSTON. I want to make one announcement on another matter, in the matter of S. 1853, the Laurance Spelman Rockefeller Commemorative Gold Medal Act. A quorum was established that the bill would be favorably reported without amendment by unanimous vote.

Jack, we thank you very much for your patience, your enthusiasm, and for your cooperation, and we look forward to working with you.

Secretary KEMP. Thank you.

Senator CRANSTON. We stand adjourned.

[The committee adjourned at 1:05 p.m., subject to the call of the Chair.]



THE "HOMEOWNERSHIP AND OPPORTUNITY FOR PEOPLE EVERYWHERE" [HOPE], INITIATIVES

THURSDAY, MARCH 29, 1990

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD-562 of the Dirksen Senate Office Building, Senator Cranston (chairman of the subcommittee) presiding.

Present: Senators Cranston, Sarbanes, Bond, Graham, and D'Amato.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. The hearing will please come to order. This is a roundtable hearing. I welcome you to this session this morning.

For the past 3 years, the Senate Housing Subcommittee has worked on a bipartisan basis to review the country's urgent need to make housing more affordable.

That effort evoked thoughtful response from hundreds of the country's most experienced, most dedicated, and most imaginative housing leaders, from local communities, nonprofit organizations, private industry, and government. Most of you have been involved very intimately and deeply in that process, and for that, I thank you.

Throughout that period, the subcommittee has worked very hard to listen carefully, to sense the emerging national consensus about what should be done for housing and to turn the best ideas into sound legislation that could be enacted and can make a difference.

The product of that effort is the National Affordable Housing Act, legislation that is still being refined as we prepare for Banking Committee markup beginning May 2, 1990. And I hope that we can begin and end that day, if possible.

Earlier this month, the administration completed work on its housing proposal, the HOPE initiative. Secretary Jack Kemp presented details of the HOPE proposal to us last week. The committee is now reviewing the HOPE legislation carefully.

I want to include as much of the administration's housing proposal as possible in the comprehensive housing bill that the committee will bring to the Senate floor for action before the August recess.

I see many important areas of agreement between the committee and the administration. We share a desire to help people move up and out of poverty. We share an understanding that housing for people with special needs, particularly elderly persons, persons with disabilities, persons who are homeless, must be more than bricks and mortar. It must include an appropriate package of supportive services.

We share a strong belief that homeownership should be an achievable goal for many more Americans. The challenge of the next few weeks is to meld many different ideas into one package that deserves the support of the administration, the support of Members of Congress on both sides of the aisle, and the support of the American people.

I believe the bill will have to meet very high standards.

First, the bill will have to mobilize the country's resources to expand the supply of affordable housing to meet the needs of Americans over the next decade.

Second, the bill will have to preserve as much of the country's current supply of affordable housing as possible.

Third, the bill will have to build a strong, new housing partnership, a partnership that involves the States, local communities, nonprofit organizations, and private industry, as well as the Federal Government.

Fourth, the bill will have to make Federal housing assistance more easily administered at the national level and more adaptable to local housing needs and local market conditions that differ greatly throughout the country.

Fifth, the bill will have to deal with a full range of housing problems, from the problems of young families struggling to own their own home, to the problems of working families who need affordable rental housing, to the problems of frail, elderly people, homeless people, and people with disabilities and others with special housing needs.

And finally, the bill will have to launch a nationwide effort that could be sustained for the years it will take to achieve real improvement in the quality and affordability of housing for all Americans.

I'm certain that we have the raw materials of good legislation that measures up to these important standards.

We have an outstanding group of participants this morning. I'm grateful that you've agreed to join us and share your assessment of the administration's HOPE initiative in the context of the National Affordable Housing Act and other housing legislation under consideration in Congress.

Your suggestions or comments today will be most useful as the committee prepares to act on housing legislation. I urge you not to be shy. I urge you to be very candid. And I urge you to give us the full benefit of your experience and your best judgment.

I'd like to say a few words about the format of today's hearing for those who are not familiar with it.

This is a roundtable hearing. I found that this approach produces a much more informed discussion of ideas among witnesses and the subcommittee. The roundtable will be most useful for all of us if

witnesses share differences of opinion, as well as areas of agreement.

So this is really supposed to be a free-flowing discussion. We'll have some guidance as to direction and topics that we want to cover, but whenever you differ with something said, it would be most helpful for us to know that. If you agree strongly with something that is said, express that, too.

Feel free to come into the discussion at any time. We're not going to go by any particular order, although I'll try to work my way around the table to make sure that everybody participates if you don't all pitch in.

But come in at any time you want to elaborate upon or disagree with something that is said. All of our witnesses have had an opportunity to review and refine our list of guide questions to be explored during the hearing. These are key issues that the subcommittee will have to consider as legislation is being refined.

I'll try to move the discussion along to include all of these issues during the time available to us.

Our time is short. We have much ground to cover. So I do ask each of you to be very brief in your comments so that everyone will have a chance to participate and we can cover as much ground as possible.

I think the most important thing for us to cover is the HOPE approach of the administration, your view of it, your thoughts on how we meld into the legislation that has some other facets obviously that we've had in the legislation before the administration came forward with this proposal. How do we put these together? What do we give emphasis to? How do we produce a bill that we know won't have the support of the administration—we want that—and at the same time will achieve the goals that many of us share that have not been fully covered in the administration's legislation.

I'd like to turn to Senator Bond for any opening remarks he might have.

OPENING STATEMENT OF SENATOR BOND

Senator BOND. Thank you very much, Mr. Chairman. I commend you on having this innovative hearing. Only in Washington do you get a roundtable hearing at a rectangular table. [Laughter.]

But people have to realize that we do things a little bit differently in Washington.

It's certainly a pleasure to see so many experts, people who are committed to assuring an adequate supply of housing for those in need. And we're looking forward to hearing the views of this group on the strengths and weaknesses both of S. 566 and the administration's HOPE proposal.

It's very important to me that we pinpoint the strengths and weaknesses of both proposals and try to come up with a committee print that takes the best of both bills.

There are many similarities between S. 566 and the HOPE proposal, as well as some significant differences.

I hope this session will help us get a handle on how the difficult task of melding these two approaches can be achieved.

In addition, I might mention that recently, I introduced a public housing authority reform measure building on the ideas in S. 566, essentially designed to cut the strings and redtape on those public housing authorities that are doing a good job, while giving additional tools to HUD to deal with PHA's or particular projects which are not being run well.

Currently, the only remedy that HUD seems to have is to be able to cut off CIAP fundings for those projects or those authorities that are not doing a good job. The ones who suffer are the residents who have been denied adequate management services in the housing authority, and I believe that we can improve our approach.

In the testimony that has been submitted today, I know many concerns are raised about the administration's budget figures.

I do agree that we need more spending for housing programs. I've signed a letter with the chairman and others asking the Budget Committee to leave room in the budget resolution for an increase in the budget authority for housing.

Nevertheless, and I think this is very important, we shouldn't let the need for increased spending blind us to the fact that we need to look very carefully at how the programs work, what the money is used for.

It won't do any good to increase funding for programs that don't work well.

My commitment to increased spending is premised on our ability to change in the authorization the way the programs work so that we can get our money's worth.

Higher spending levels can be justified and defended only for programs that efficiently and effectively house Americans who need help.

I hope we'll focus this morning on what works and what doesn't in the HOPE proposal and in S. 566, so we can get on with the job of crafting a housing bill that will be passed and signed into law this year.

Thank you, Mr. Chairman.

Senator CRANSTON. Thank you very much, Kit. Senator Bond has been one of the members of this committee that has become most active on the housing front. He will be an indispensable part of the operation that we will seek to undertake to make this a truly non-partisan bill. And I'm very grateful to you for that.

Senator BOND. Thank you very much, Alan.

Senator CRANSTON. Senator Sarbanes has also been extremely active on this committee on the housing front and I welcome his presence.

OPENING STATEMENT OF SENATOR SARBANES

Senator SARBANES. Well, thank you, Mr. Chairman.

Unfortunately, this is one of those days when I have four committee meetings scheduled at the same time. I'm not going to be able to stay, although I hope I'll be able to get back because I am in fact chairing a hearing somewhere else at 10.

As I look around the table, I see so many people who have been so deeply involved in trying to address the housing issue over the

years and we're very pleased to have you here and the benefit of your counsel and guidance.

I simply want to say a word about the tremendous leadership which I think Senator Cranston has provided on this issue over the past 3 years.

As you all well know, a major effort was mounted to try to develop a national consensus with respect to housing. The legislation that was introduced by Senator Cranston and others of us reflected that. We have an administration proposal. They overlap in some respects. They differ significantly in other respects.

We hope to put together—I think we have an opportunity for a major initiative in housing this year in this Congress. But we need your help in order to do it. And we need your help not only as experts in shaping the content and substance of the legislation, but as people out in the field who can help to muster support for it.

A lot of work and effort has gone into this. I very much hope that Senator Cranston's leadership will pay off in a major piece of housing legislation.

So, Mr. Chairman, I again thank you for your leadership and I'm appreciative of those that are here today to help us in this task.

Senator CRANSTON. Thank you, Paul, for those very generous words, and more for your active leadership and participation in this joint effort.

Senator Bob Graham of Florida has been another member of the committee who has been particularly active on the housing front.

We welcome you, Bob.

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. Thank you very much. Mr. Chairman, I am particularly pleased that you have called this meeting today and in this particular format.

Two weeks ago, Senator Mack and I held a similar roundtable session—which was also around a square table—in Tampa. We heard from a cross-section of Floridians as to what their concept of the appropriate role for the Federal Government in housing, with an evaluation of HOPE and the National Affordable Housing Act framing our discussion.

One of those participants is with us today, Mr. Mark Hendrickson, who is the executive director of the Florida Housing Finance Agency, and I believe one of the Nation's most able professionals and administrators in housing policy.

Some of the comments that we heard at the Tampa roundtable included: one, HOPE should not be funded from cuts in existing housing programs; two, it should not be matched with existing HUD funds like CDBG or rental rehabilitation grants; three, State and local providers need to be meaningful participants; and four, not all low income families are candidates for homeownership, and we should be careful not to set them up for failure.

I would be interested in getting the comments of this national panel on whether those observations from Florida stand up to your assessment from the communities that you are most familiar with.

I wish to express my appreciation for your being here today and I know that your thoughtful suggestions and comments will be a

significant part of shaping final action by the Congress and the administration on housing.

Thank you.

Senator CRANSTON. Thank you very much. Senator Sanford has asked his statement be inserted in the record at this point.

OPENING STATEMENT OF SENATOR TERRY SANFORD

Senator SANFORD. Mr. Chairman, I thank you for holding this informative roundtable hearing to investigate the HOPE act and to solicit the opinions and advice of housing experts from across the country.

I am particularly pleased to welcome Eva Clayton, a county commissioner from Warren County, NC, and the chair of the board of directors of the Housing Assistance Council. Eva has been a great help to me and my staff as we have looked into the rural housing problems in North Carolina and across the country, and I am certain that her testimony will be enlightening.

Unfortunately, I will be unable to stay for much of this hearing, but I hope that you will investigate the impact of the HOPE proposal on rural housing. As we develop a comprehensive housing bill we must work to coordinate the housing efforts of HUD and the Farmers Home Administration to ensure that rural housing needs are met by the Federal Government. This hearing provides us with a unique opportunity to discuss these issues and make useful recommendations.

Thank you Mr. Chairman.

Senator CRANSTON. We'll now start with the first question. You've all looked at them. Just to summarize the first one, which relates to the supply of affordable housing, during the past 3 years, the Senate Housing Subcommittee has been made painfully aware of the many dimensions of the country's escalating housing problems. The difficulty of saving for a downpayment on a first home, the alarming rate at which low cost housing is being lost, the fact that at least 4 million families are living in substandard housing or paying more than 50 percent of their income for rent, and the fact that upward of 3 million Americans may be homeless.

I'd like to start the discussion with several of you addressing the following questions.

Please point out one aspect of the country's housing problem that you believe will be most pressing over the next decade.

How do you assess the HOPE initiative of the national response to that aspect of the housing problem?

What are the strengths of the HOPE proposal?

What are its weaknesses?

What changes would you suggest?

If it would help clarify your views, please feel free to compare the HOPE initiative with elements of the National Affordable Housing Act or other legislation pending before us.

Who'd like to start the discussion?

Ms. RATTLEY. I'd be pleased to.

Senator CRANSTON. Fine.

JESSIE M. RATTLEY, MAYOR, NEWPORT NEWS, VA, CHAIR OF HOUSING COMMITTEE, U.S. CONFERENCE OF MAYORS, WASHINGTON, DC

Ms. RATTLEY. Because I thought that Senator Graham's statement just hit it right on the head.

We have some concerns that the HOPE program hasn't really looked at what I call the question of is it possible that some people cannot become home owners even if you give them a place to stay?

We're not quite sure how this program is envisioned by those people who put it together. In Newport News, VA, where I serve as mayor, we do not have large numbers of houses to be rehabilitated. Yet, we have about 400 people on the waiting list for public housing.

I think the HOPE program is good, the idea is good that everybody should own a home. But I don't think that everybody can own a home, even if you give them the house.

Who's going to pay the mortgage? Who's going to keep it in good repair? Where will the money come to educate the children, to provide medical care?

You know, there's such a thing as people not being able to own a home even if you give it to them. Who's going to keep it in good repair? I think that's a good question.

And I don't think this bill addresses it and I'm concerned about it because it doesn't tell me what's going to happen to those people who are on a waiting list.

In Newport News, we need additional housing. This bill doesn't provide it. And as mayor of the city, I must answer the question, how are we going to house the citizens of our city?

Senators CRANSTON. When you say this bill, you mean the HOPE program.

Ms. RATTLEY. The HOPE. Not yours. I like yours. [Laughter.]

I like it very much. And the other thing is flexibility. We at the local level must have flexibility. This HOPE program doesn't give us a lot of flexibility. And it will only work if you have large numbers of houses that need to be rehabilitated.

There are no opportunities for new housing starts, and this is of great concern.

Mayors are also concerned with the partnership that we've tried to create over the years. This program limits that partnership. And I guess we feel as though we've been kind of left out because we don't have the flexibility. We don't have a great say in what happens.

We think nonprofits are good. We use them. And we feel they should participate. At the same time, we think the for-profits should participate also.

But at least the government, the local government should be involved in determining what is needed for that locality. And I think it misses the point there.

Although I support homeownership, I'm just concerned about how the person will keep the property up, unless you expend great sums of money on the education and training. And I understand that that's part of the program.

And there are people who live in public housing who may be capable of doing it, but not everyone. And sometimes I have a problem determining the true purpose of the HOPE program. And I guess it is to give everybody hope that they can own a home.

I would like to think that that's the way it is. But I've been out there long enough to know that that is not the way it is. When people cannot buy food, cannot educate their children, cannot pay for medical care, how will they maintain a home?

I would much prefer seeing them have adequate rental housing that they can afford with subsidies, so at least they could maintain a standard of living and have a little money to do the other things that we need to do in order to live in this country.

Senator CRANSTON. Thank you very much. Other comments? Yes.

BERNARD TETRAULT, EXECUTIVE DIRECTOR, HOUSING OPPORTUNITY COMMISSION, MONTGOMERY COUNTY, MEMBER, NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

Mr. TETRAULT. Could I build on that, if I could?

The Federal Government needs to be a key player and a primary player. There has to be other participants as well, and there's much capacity on the State and local level that's been developed in the past 10 years with the Federal funding cut. But I think that's the reason why we're in the condition we're in, because the Federal Government has ceased to be that key player.

But to build on the point that has just been made, and also, your opening comments, Senator, I agree that some of the raw materials are there, meaning the tools. And some of the tools have gotten a bad name, one, because of lack of funding and, two, because of the poor administration. And I think the good mayor has indicated that public housing is one of those.

It's the program that gets to the greatest needs with the least dollars.

Much of the image of public housing has been tarnished because of some of the mistakes that were made in the 1950's. But that isn't the way public housing has been produced. What has been produced in the 1960's and 1970's, it has been of a scattered site nature. It's been integrated into communities. And that's one program that should be built upon.

HOP—not HOPE—offers the flexibility to do that sort of thing. I underscore the flexibility that HOPE provides to build on those kinds of strengths of even existing programs.

New is good, but I think we need to also reinforce what has proven to be good. Only fund them adequately and administer them properly.

Senator CRANSTON. Yes?

NATHAN I. NAGLER, PRESIDENT, BOARD OF DIRECTORS, B'NAI B'RITH HOUSE, QUEENS, NY, CHAIRMAN, B'NAI B'RITH SENIOR CITIZENS HOUSING COMMITTEE

Mr. NAGLER. If we weren't talking about money, I could sit here and endorse HOPE. HOPE is one of the best proposals offered by the administration in a long time.

But speaking for the low-income well elderly, and looking at the apartment buildings that B'nai B'rith sponsors around the country, we must have, as the mayor says, more apartments. The well elderly, the low-income well elderly are dying in their current apartments. We must find a place for them.

For example, take a program that's so successful now, the most successful construction program that the U.S. Government has ever put out, the section 202/8 housing program for the elderly. It is marvelous. It produces homes. It produces apartments. It produces safety. It produces dignity. It produces independence. It produces a new life for our well elderly. We need this program desperately.

If we had the money to increase the supply of this program, HOPE would be great. We would support it. But right now, what we need is more apartments, and the kind of apartments that Section 202/8 produces. Next year, the administration plans to fund only 3900 section 202/8 apartments in the entire United States. How can we sit here and discuss new initiatives when we have such a successful program that is so underfunded.

Senator CRANSTON. Amy?

AMY ANTHONY, EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT, BOSTON, MA, REPRESENTING THE COUNCIL OF STATE COMMUNITY AFFAIRS AGENCIES

Ms. ANTHONY. Thank you, Mr. Chairman. I am here representing States.

I would say that, in relation to the HOPE proposal, I think it does not take advantage of what States increasingly have to offer. I want to echo what Mayor Rattley said. That the HOP proposal and your proposal offered flexibility and true partnership.

True partnership means not just looking to States to write checks, to fill in the blanks for projects that are troubled, that have been selected at the Federal level, but means sharing in decision-making, sharing in priorities. And I think that's a very important element.

We feel that Secretary Kemp's comments that the HOP proposal would institutionalize failure at the State and local level is in fact the exact opposite of what this effort would do, which we believe would be to help institutionalize the Federal level, the significant level of success that has been building at the State and local level. We feel it's a direction which it is very incumbent on the Federal Government to encourage, to encourage activity and funding and effort at the State and local level.

We think that's been happening and it's critical that our opportunity for national legislation build on that.

Senator BOND. Mr. Chairman?

Senator CRANSTON. Yes.

Senator BOND. I come with a built-in bias. My colleague, Senator Graham, may as well, toward making sure that States, particularly States and local governments, have a role. In the State of Missouri, the Missouri Housing Development Commission has played an absolutely critical role.

It would be my view that we cannot leave out the States and the flexibility at the local level that we have seen in the past. I would be interested to know if anybody disagrees with that. Perhaps with the comments that we've already heard from the mayor and others, there seems to be a trend.

Is there anybody who disagrees with the comments of Mrs. Anthony?

[No response.]

Senator CRANSTON. Is there any disagreement with what's been said so far?

[No response.]

**EVA CLAYTON, COUNTY COMMISSIONER, RALEIGH, NC,
CHAIRPERSON, HOUSING ASSISTANCE COUNCIL**

Ms. CLAYTON. There are, however, some additional comments. I represent the rural areas, and the concerns I have can be expressed and supplement some of the issues that have already been said.

Rural America is not served well by HOPE. So you have flexibility or no flexibility. That's not an issue here. It's just about the availability of additional houses in rural areas.

HOPE does not provide that. What it does provide is a better utilization of what you now have. But if there are no houses there, having flexibility around an issue that's not there, I would say would give us still very little to work on.

I am a locally elected official. I want all the flexibility I can. But for rural housing, we need to have more production of housing. We need to be sensitive to the needs of housing.

We support homeownership. Homeownership, obviously, is not for everyone. But we need to have the availability of housing and need rental housing.

Capacity building has to be a part of that issue. And unless there are grants for construction in rural areas, all of this means very little.

We support the Senate bill and we're hopeful that the amendment and introduction of Senator Cranston's bill which speaks to rural housing will make the Senate bill more acceptable.

But as far as rural housing, we need to see that there are actually more houses built. Otherwise, there's no hope for us at all.

Senator CRANSTON. Barry?

**BARRY ZIGAS, PRESIDENT, NATIONAL LOW INCOME HOUSING
COALITION, WASHINGTON, DC**

Mr. ZIGAS. I wanted to add my thanks to you for having the hearing, sir, and also to say that I don't really disagree with anything anybody said.

But I wanted to add. You asked in the beginning to point out one aspect of the country's housing problem that would be the most pressing.

I think, for me, the one that really does have to be addressed head on is the fact that as our economy has changed, as more and more working people and every day people find they do not earn enough money to pay an affordable price, that rents or homeown-

ership impose upon them, that we need to start coming to grips with this aspect of the problem—the income problem, the need to provide a long-term, in many cases, and steady supply of income to help people afford housing, whether it's through efforts at the State and local level that build it, or whether it's through preservation of existing housing.

One of the things I think the HOPE proposal does highlight, and I think the Secretary should be congratulated for, is it highlights the need to address the problems of people, whether it's to help them gain control over their communities through working together in nonprofits or cooperatives, or to gain control of the management of their housing, or to help rebuild their communities from the inside out.

One of the most disturbing aspects of the HOPE proposal, however, and one that I think really needs to be addressed is the premise that 5 years of assistance is all anybody should need.

The point of all of these efforts is to make people self-sufficient. Nobody can be against helping people to become self-sufficient. But I think the HOPE proposals, especially in their limitations, of 5 years of assistance and the premise that if you have an active program, it has to include an element that in effect guarantees that after 5 years, the residents are off subsidy, flies in the face of what I think is the country's most pressing housing problem, which is that the number of low income people is increasing, the cost of providing, maintaining, building and managing housing is increasing, and the premise that simply by creating some form of resource or trading the ownership interest of a resource and offering opportunities for jobs and training, is necessarily going to create an entire class of newly and entirely self-sufficient individuals of families. This is very fallacious.

I think it's seductive. I think it's a goal to which all of us should be trying to work. But I really believe that housing policy has to come to grips with this underlying gap between cost and income.

And so the issues of empowerment and self-sufficiency that HOPE embodies I think should be incorporated and encouraged. And there's a lot in these proposals that I think bears some merit. But the premise that we can limit housing assistance and should limit housing assistance, I think is very pernicious.

I would only point out that we do not apply this same standard of requiring people to gain self-sufficiency when we empower them with enormous subsidies for homeownership. Nor is there any suggestion in this bill that we should.

And I think we have to come to grips with that. It's a major part of these proposals that isn't really talked about very often, and I think needs to be directly addressed.

Senator CRANSTON. Bob?

Senator GRAHAM. If I could, I'd like to ask a question, picking up on a comment that was just made.

It seems to me that the premise of the HOPE bill is that if you empower individuals by increasing their income, that either one of two things will occur.

Either, one, that they will then be able to go out and access existing housing in the community. Or two, that they will create a suffi-

cient market that there will be a supply surge by the private sector to meet the demands or needs of that newly empowered family.

I'd be interested from your own community's assessment of both of the sides of that equation. One, is there a sufficient supply already existing that is waiting for an empowered new group of families to come out and meet? Ms. Rattley indicated that she didn't think that was the case in her community.

Ms. RATTLEY. That's not the case. We have 4,200 units of public housing in Newport News. We have no houses there that can be rehabilitated. I believe this program is geared toward rehabilitation.

Senator GRAHAM. And two, the other assumption that if housing does not currently exist, that by creating a demand by empowering families who currently are not at an economic level to be candidates for homeownership, that you will generate a supply of new housing that they can access.

I'd be interested in the assessment of some other communities as to the validity of those two premises.

Senator CRANSTON. Particularly the second one. The second one is a very important premise. We'd like to have your reaction to it.

Mr. ZIGAS. Senator, just a brief comment.

I think the need for new supply for additional access to new units is not debatable in many communities. But nationwide, I think it's very important for us to acknowledge that most low income people today live in housing, and most of it is standard housing.

The biggest hurdle most of these families confront is that they pay enormous amounts of their income for rent. They are being impoverished each month by what they have to pay for their housing costs.

This issue that's raised in HOPE that we will provide some families with assistance from whatever source and then have to phase them out is the part of this configuration that I take such great issue with.

We already know many millions of households are living in decent housing and they are being impoverished because of the cost of it. Even if you take the highest estimate of the homeless and add to that the number of people in substandard housing and the number of people in overcrowded housing, you still don't come up with the total number of renters who are eligible for HUD programs, which means a substantial portion of them are living somewhere in housing that's probably decent, but they're paying these huge rents.

The supply problem I think is one that's more differentiated market to market. It's especially acute in rural areas, as the other witnesses pointed out, and in some central cities.

But I think the question of if you gave people a subsidy for 5 years and said, go become self-sufficient, is that going to solve the problem? We already have the evidence of that. We know people who do work full time, some of them two jobs, and they do not earn enough money to rent housing in their community.

That is a problem that this committee has to come to grips with.

**JAMES MORAN, MAYOR, ALEXANDRIA, VA, NATIONAL LEAGUE
OF CITIES**

Mr. MORAN. Senator, I'll add my perspective to that. I'm representing the National League of Cities today. But I'm also the mayor of Alexandria, VA, across the Potomac River.

The average house price in Alexandria is \$276,000. That's clearly out of reach for any moderate- or low-income family.

It is not inconsistent with the housing throughout the Washington metropolitan suburban area. But that's where the jobs are.

We are subsidizing approximately 1 out of every 14 families in Alexandria, heavily subsidizing them, so that we can maintain an economic and racial diversity within our community.

We've lost about three-quarters of the Federal housing assistance that we had been getting up until 1980, and so more and more is coming from local funds.

It is wholly unrealistic to suggest, to any way promise families, no matter how hard they are working, unless they are able to break into the upper income strata, that they will be able to own a home in an area like Alexandria or Arlington or even Fairfax County.

We are trying to achieve more housing opportunities through the same kinds of concepts that are envisioned in the HOPE program. But we find increasingly that while the concept, the principle behind the HOPE program is one that we would all embrace, it leads to a lot of really dynamite rhetoric in terms of the political circuit.

But the rhetoric falls far short of the reality when we try to come up with the money to implement the concept. We established a homeownership opportunity in the northern part of our city—it's only about 3 miles from here—2 years ago. We wound up subsidizing individual families at over \$100,000 per family, so that they could live in the homes within the new housing development. We thought that that was the right thing to do, to set aside 20 percent of a housing development for low- and moderate-income families.

It isn't reasonable. We can't afford to divert those kinds of housing resources to assist that limited number of families.

So I have to underscore what Mayor Rattley is saying, that the problem—and really, all of my colleagues here—that the problem is one of an adequate supply of affordable housing.

We simply don't have it today and without the kind of partnership that is envisioned in your legislation, we will not have it in the near future.

Senator BOND. Mr. Chairman, I must apologize because I have to go off to a hearing. It happens to be a hearing that deals with my two major committees, housing and agriculture.

But I would like to get the reaction from this group to a proposal made to us by one of the organizations involved in providing housing.

It was a suggestion designed to increase the stock of available housing. It was that, given the fact that there are many, many projects, in many places around the country, that have gone belly up, thanks, some may say, in no small part, to the tax act of 1986, there are distressed properties, many of them vacant. They are

held hostage because the current owners would face a very significant tax recapture if they were to get rid of them.

This group that approached us suggested that we consider, and it would not be this committee, but it would have to go through the Finance Committee, that we consider a substantial, perhaps 80 percent, forgiveness of the recapture provision on housing units donated to not-for-profits that would then be able to use that housing for low-income housing and add that to the stock.

And I wondered if there were any thoughts, strong pros and cons either way, from the experts assembled at this table.

Senator CRANSTON. Yes.

**KENNETH G. LORE, EXECUTIVE COMMITTEE MEMBER,
NATIONAL HOUSING CONFERENCE, WASHINGTON, DC**

Mr. LORE. I am here representing the National Housing Conference. The Conference feels strongly that the proposal you have outlined has important elements which are critical to the current preservation issues.

Unfortunately, there are many existing housing projects where the owners have no economic incentive to maintain the properties. The funds are simply not available from the rents or other Federal programs to deal with those problems. In addition, tax incentives are no longer available. In fact, under current tax laws owners are frequently not permitted to offset real cash losses, which usually constitute "passive losses," from other active income sources.

And yet, these same owners also do not have the necessary incentive to turn over the project to someone else such as a non-profit to operate the property. To do so under current law would generally result in significant negative tax consequences to that existing owner.

That situation is a tragedy for our housing stock. We can't afford to replace those units that are currently occupied by low income tenants and we must therefore preserve them. Many of them were built at \$20,000 to \$40,000 or less and could only be replaced today at four times that initial cost.

We need to preserve this housing. We need to incentivize the people who own it to take care of it, or else to incentivize them to turn it over to owners who will take care of it. These new owners can be public nonprofit or profit motivated so long as long term protection for the low income character of the projects are preserved.

While we could do this through the appropriations process and authorizations process, we believe it is unrealistic to expect that this committee and the Appropriations Committee will be able to provide sufficient incentives above in the current budget environment.

The tax problem was exacerbated by the Tax Reform Act of 1986. The lack of incentives to sell or to invest new money in housing has created some of this problem. We believe that the tax committee must help deal with the preservation issue under a program similar to the one you have described. We therefore encourage your interest in pursuing joint tax relief.

There are many different ways to structure tax incentives to be sure to get the greatest benefit for housing. We are anxious to work with you and Senate Finance Committee to develop such incentives.

Senator CRANSTON. Any other comments on that particular point?

Yes, Mr. Webdale.

WALTER WEBDALE, DIRECTOR OF HOUSING AND COMMUNITY DEVELOPMENT, FAIRFAX COUNTY, VA, PRESIDENT, ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

Mr. WEBDALE. Yes. I think it's very important that we do look at that kind of a tool for preservation of housing. But once again, I think in coming up with very individual kinds of programs, we're forgetting this word "flexibility." And that is, what works in one community where there is a supply of housing is not necessarily going to work in other communities.

I think that's the problem we have with HOPE. HOPE doesn't work in Fairfax County, VA. It may work in a community where there is a great problem of vacancy in particular public housing projects.

So any project, depending upon tax credits, tax incentives, I think any proposal would really help preserve housing. But we still have to look at our community as it needs supply. We don't even have abandoned housing.

Senator CRANSTON. I'd like to make one point about this.

We now have a working group consisting of Senators on the Banking Committee and the Finance Committee where tax measures have to originate, to coordinate housing policy and tax policy.

This is a very important development. The ideas that we're discussing now will be considered by that group. Anything that we generate here that has to be done there, we hope we can get there through this process.

Ms. VONEIDA. Senator Cranston?

Senator CRANSTON. Yes.

DIANE VONEIDA, DIRECTOR OF COMMUNITY DEVELOPMENT DEPARTMENT, CITY OF ROCKFORD, IL, FIRST VICE PRESIDENT, NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Ms. VONEIDA. I'm here representing the National Community Development Association, which is made up of over 500 communities throughout the country.

But I'm also here to share some problems in a midwest mid-sized community, Rockford, IL, which is the second largest city in the State of Illinois. But that is not very large when you think of Chicago.

Our problem is somewhat similar in response to your question, in that we have no distressed properties that are in trouble. We do have several properties that will probably want to prepay if they are able to in the next several months. And they are in high growth, high income areas, and so they clearly will have an incentive to prepay and increase their opportunities for profit.

Our problem, though, is somewhat different, in that we don't have nonprofits active in our community. And I don't know that we are too much different from a lot of midsized communities. We're trying to nurture them. We're trying to grow and build capacity in our nonprofits, many of them church-related organizations that we've challenged to join our partnership with our private lenders and our State housing finance agency. But they are really at the very beginning of their capacity. They would not be able to handle the kinds of partnerships that are envisioned by what you're talking about and also by what HOPE is suggesting.

I think that the local government and the partnerships that we have built over the last 10 years, in the absence of a lot of Federal presence, really needs to be recognized and that, again, to echo what Mr. Webdale said, and Mr. Moran, the flexibility is very, very important because all communities are different. And we all have different kinds of problems that are all housing problems, but they're different housing problems.

Senator CRANSTON. Before Senator Bond leaves, because of his particular interest in State government out of his experience as a Governor, why don't we turn briefly to the second page, the State and local partnerships, and a few of the specific questions. The last one was what incentives and disincentives does HOPE offer for State or local involvement?

Do any of you have any comment on that point? Yes.

MARK HENDRICKSON, EXECUTIVE DIRECTOR, FLORIDA HOUSING FINANCE AGENCY, REPRESENTING THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES, TALLAHASSEE, FL

Mr. HENDRICKSON. Yes, I'm representing the National Council of State Housing Agencies.

HOPE offers almost no incentives for State and local government participation. It's a program invented in Washington, with the delivery system defined in Washington, with the projects to be funded selected in Washington. And the role of State government is to pick up one-third of the tab.

So it basically leaves us out of the decisionmaking, not only in how the program is structured, and I think people have very clearly discussed the element of having program flexibility, but HOPE goes a step further and has the selection at the national level. This means that everyone around the country has to be sending proposals up here for someone in HUD to try to decide within our communities what's the best approach.

That just seems to be ridiculous. Our reward for participation is that one-third of the tab comes down to us.

Senator CRANSTON. Do you have any suggestion as to revisions in HOPE that would meet that problem?

Mr. HENDRICKSON. Well, I think that the HOP proposal is significantly better and one that should be adopted. With the flexible approach in HOP, we're happy to pick up part of the tab at the State and local government. We think that it's appropriate that if we're going to be players in the game, that we should be paying part of the freight.

But, clearly, we need to have our policies which differ from State to State and locality to locality, reflected so that we can design programs that meet local needs and that we can select the kinds of projects within a program that are consistent with our policies in each of our States and our localities.

So that is the essence of our decisionmaking.

With the HOPE proposal, even if we liked HOPE as it existed, and we think that it's maybe one program in a battery of programs, the Federal Government might select a HOPE applicant that is totally inconsistent with what's needed in Miami or the State of Florida or San Francisco.

We can't even have input within that singular program as to what specific projects get funded.

So I think we need both input on the flexibility and design of program, but also flexibility in directing the funds.

Senator CRANSTON. Do all of you feel that HOPE doesn't give enough recognition to the expertise that State and local governments have developed, and not a significant role to them?

Let me go to somebody who hasn't yet spoken. Yes, Mr. Brophy.

**PAUL BROPHY, PRESIDENT, ENTERPRISE FOUNDATION,
COLUMBIA, MD**

Mr. BROPHY. Just to re-emphasize that point, Senator, as I look at the questions that are being asked today, they are in many respects the same questions that the National Housing Task Force had to confront. A number of the participants in this panel were on it.

The very first recommendation that came from that task force was that there needs to be a new system for delivering affordable housing in this country. That system spoke to the fact that housing, just to quote briefly, the housing markets are local and the Federal Government is not as well equipped as local governments and State governments to understand those markets, assess needs, and develop tailored responses.

That issue is not so much a critique of the HOPE program details, but, rather, the overall issue of federalism that this addresses and the relationship to what needs to happen, where the invention needs to occur.

The task force view was that there was great invention occurring at the neighborhood, the local, the State level, and that needed to be reinforced by new Federal programs.

Of course, the HOP program seeks to do that. I think that Secretary Kemp's overall philosophy is to enable local nonprofits and local governments to move forward on things.

My view, coming from both my experience at the Enterprise Foundation at the National Housing Task Force, and to reinforce this, is that that kind of connection is essential if our future housing programs are going to succeed.

Ms. RATTLEY. Mr. Chairman?

Senator CRANSTON. Yes.

Ms. RATTLEY. Would you permit me just to emphasize that this is, aside from no production, in the HOPE bill, you have left out, or

they have left out local governments altogether. But we have the sole responsibility really for providing the need for our community.

And when you want to talk about the State government, you notice I was very quiet on that because up unto this point, we have gotten no help or very little help from State governments in this much needed problem.

But I've heard proposals now, everything to be funneled through the States. We feel as though we've had a partnership over the years. We have proven our ability to come up with innovative ideas to meet our specific needs. And we feel that the local elected people should be given the responsibility in operating the programs.

But we have been omitted, States have been omitted, but they have not been participants in the past. But in addition to that, all you tell us to do is that we can pay a matching amount. For every \$2 you give us, we can give you \$1 in the program. But no control over how the money is being spent for such things as detoxification, education, counselling, and those other services that should be a part of the program through that grant provision.

So I'd just like to make a very strong statement that we feel that you have left out the key players in the partnership that we've been trying to develop to provide housing.

Senator BOND. Senator?

Senator CRANSTON. Kit, do you have any parting words?

Senator BOND. I think that there may be some people who would like to answer that from the States' viewpoint. I can speak—I don't think we need to get into that discussion.

Ms. RATTLEY. No.

Senator BOND. I think there is close to unanimity around the table that the decisions cannot all be made in Washington.

Of course, we don't have a lot of people from HUD here. [Laughter.]

But at least from this group, I think that we could establish that as a given. I do apologize. I do have one of my colleagues here who is going to be giving me the follow-up on this, and I do apologize that I have to go to another hearing.

I'm sure that there will be others from the States who want to address the mayor's views.

Senator CRANSTON. Thank you very much.

Senator BOND. Thank you.

Senator CRANSTON. And thank you for being with us.

Ms. Melkonian?

**MARILYN MELKONIAN, PRESIDENT, TELESIS CORP.,
WASHINGTON, DC**

Ms. MELKONIAN. Just one final comment because I think that there are certain decisions that really can be made in Washington, and can only be made in Washington.

One of them is the one that you pointed out, tax policy, and how important that is to housing. Of course, we know how much of our housing is really dependent upon favorable tax treatment. Four-fifths of everything we spend on housing comes through the tax code. The \$50 billion that we spend for homeownership comes through the Tax Code.

So the policy that we follow in that area can have an enormous impact on the supply and the cost of housing. That's why it's so important that this working group has been formed between the Finance Committee and the Housing Committee to make sure that that's part of the national housing policy.

The other decision is investment. The one thing I take some hope from although there's a bit of blue smoke and mirrors to it, is that the bottom line for the HOPE program, if it really were new money, is about the bottom line that the HOP program has been looking for which is \$4 billion.

If we could commit \$4 billion of new investment over the next 2 to 3 years, I think that we would begin to reestablish a national housing policy that would address all these issues and leave the production and supply decisions and the investment decisions at the State and local levels.

Senator CRANSTON. Bob?

Senator GRAHAM. I'd like to pick up on that last point of Ms. Melkonian's relative to tax policy has to be at the Federal level.

I agree with that in terms of writing the tax code. That obviously has to be done. But I would not necessarily agree that the implementation has to be centralized.

I'm chairing a select committee looking at the HUD scandal. And one of the things that's obvious is that the scandal was in large part a function of a layering of benefits. You had the objective of providing the necessary degree of subsidy to make a project viable, but, because many people who were providing subsidies didn't know what the others were doing, the result was unnecessary enrichment of developers.

I think the key, and probably the most significant part of that unnecessary enrichment, came from the low income family tax credits.

We had a project that we heard about in Las Vegas where, after the deal was done the developer picked up \$5½ million of low income tax credit, and had absolutely no contribution to any credible public policy.

So I would suggest that even as it relates to tax policy, that we ought to try to give people at a local and State level a greater degree of control over who will be the ultimate beneficiaries so that it's part of a coherent program, not something sitting off to the side and a ripe fruit ready to be picked.

Ms. MELKONIAN. I didn't mean to imply that centralization at the HUD level, for example, was the way to produce housing or to really even design projects, no less programs.

But the lessons that you're referring to, I think have been learned about what it really takes to produce housing and what compensation needs to be paid to do that.

We're really starting a brand new housing policy and those lessons can be incorporated, with this new investment. And I think the States have set very good examples of how the sources and uses of funds have been analyzed and can be analyzed to make an efficient, effective program.

But if we don't have the investment from a variety of sources that's sufficient to make housing affordable, which is the responsibility of the Federal Government, we'll be just treading water.

Senator CRANSTON. There seems to be unanimity at the table now that there's not any role, and certainly no adequate role, for State and local government in the whole program.

Do any of you have any specific suggestions as to how it can be revamped to provide that role?

Yes?

Mr. WEBDALE. Under the HOP proposal—if HOPE was made, one of the things that you could use your HOP money for, if a community felt they had a need for this kind of program, fine. The local government, the local housing authority could come forward and say, we want to use our HOP money for homeownership for people in public housing.

I know my particular community would not come forward with that kind of proposal. Because we have our own homeownership program for residents of public housing. But HOP would incorporate it. And if it worked in a particular community, fine.

Senator CRANSTON. That's such a nice, simple suggestion. [Laughter.]

PATRICK HALPIN, SUFFOLK COUNTY EXECUTIVE, SUFFOLK COUNTY, NY, REPRESENTING THE NATIONAL ASSOCIATION OF COUNTY OFFICIALS

Mr. HALPIN. Absolutely. I'm Pat Halpin, representing the National Association of Counties.

I think what that points out is that the HOPE proposal is not a comprehensive housing proposal. It's a very narrow program designed for a very, very small segment of the overall housing problem.

My big concern, by the way is that if we do have a situation where you have tenant ownership, what happens to the rental stock that's needed in that community? There will be a serious problem of displacement.

We've already seen that problem over the last 10 years. So it's really important that we have a comprehensive plan.

I know, everybody said it time and time again, but the legislation that you've put forward really provides that comprehensive approach to a very complex problem. And the HOPE proposal is not a comprehensive proposal. It is a very narrowly focused proposal.

Frankly, if I was cynical, and I'm not a cynic, I would think it was part of the Federal Government's attempt just to get completely out of this business altogether, couched in something that looks like it's empowering people who previously were not empowered.

TIM MASANZ, DIRECTOR, COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNICAL INNOVATION, NATIONAL GOVERNORS ASSOCIATION, WASHINGTON, DC, ACCOMPANIED BY WENDY ADLER, SENIOR POLICY ANALYST, COMMITTEE ON HUMAN RESOURCES

Mr. MASANZ. I'm Tim Masanz, here on behalf of the National Governors Association.

I would echo many of the comments just made, that the HOPE proposal is very narrowly drawn.

And I think one thing, besides tax policy and investment, level of investment that the Federal Government can make. Another that they can make is the breadth of the flexibility of the kinds of uses that Governors and mayors, that State and local officials can use funds on, because some of the ideas in the HOPE proposal might be ones that, in a given community, might be an excellent possibility. There may be communities, parts of States, with a lot of boarded-up homes or housing in foreclosure, in which this might be a very good approach.

But to make it a national program where all of the Federal investment is going means that many States could not at all participate in that program.

So a whole area of this flexibility really has to do with that States and localities can make decisions on given programs based on the situations that they face.

I think there is some validity to the notion that production costs are very expensive. And so if there's a way to find some additional production without building it, by looking for the boarded-up housing, abandoned housing, I think that is a creative approach. But I think there are States and localities that have already tried and are working for that approach.

So having additional support in that area would be helpful. But within the HOP proposal, that would be possible. And I think clearly that's the way that the Governors would like the program to be structured.

Senator CRANSTON. Let's move on, if we may, to the third question, which relates to allocation of resources among programs.

The HOPE grants would provide only part of the funds needed to transfer the ownership of properties to tenants. The bill would authorize \$2 billion over the next 3 years, but an additional \$1 billion would have to come from so-called State or local matching, which we've already touched upon.

Section 8 assistance would also be used in a variety of ways to facilitate tenant ownership.

The question is to what extent would existing Federal housing resources, low income housing tax credits, community development block grants, rental rehab, section 8 vouchers and certificates, be drawn in to finance the HOPE program?

What are the benefits of that use and what are the drawbacks of any such use?

Mr. Lore, yes.

Mr. LORE. Senator, in many cases, the HOPE program's limited scope effectively prohibits one from using the Federal programs that you have described because the bill does not provide for those existing programs to be counted as matching funds for purposes of the local participation.

The tax credit program is one example. States and localities are already being asked to invest substantial dollars into housing at every turn. This is certainly true in connection with the existing tax credit program, which we know do not provide sufficient funds in most jurisdictions to produce or rehabilitate housing without other State and local contributions.

We believe that all sources of funds should be available to provide flexible responses to needs in particular communities. We do

not believe States and localities have sufficient requirements. The result could be a program which is underutilized in many areas unless many forms of State and local assistance, including those related to other Federal programs such as CDBG and tax credits, are available to meet matching requirements to meet housing needs.

Any program that limits creativity in this way can use adjustment.

Ms. ANTHONY. Senator?

Senator CRANSTON. Yes, Amy.

Ms. ANTHONY. I would just mention that, in relation to some of the ways in which the States—I think it's highly unlikely the States would participate at all.

From the Federal point of view, what that means is that it leaves those projects undeveloped. So I think that the agenda for the Federal Government has got to be how to provide incentives that get States and local governments actively engaged in the solution to these problems.

I would suggest that the committee look at ways that, for example, additional available tax credit to be targeted to troubled properties, expired use properties, and approaches that can be incentives to actively engage people at the State and local level.

Frankly, I think that the prospect of having to write a check for a significant portion of the cost will push States and localities even farther away from being involved in what are understood, I think, often as Federal problems now.

Mr. LORE. And if I may, Senator.

Senator CRANSTON. Yes.

Mr. LORE. The financing vehicles that are available to finance these various activities are becoming more and more limited.

As you know, in your position as chairman of the Housing Subcommittee, the Federal coinsurance program is no longer in existence. Today there is no active FHA insurance program for rental housing. And yet, the housing community is being asked to finance preservation activities with 5-year vouchers.

Lenders just simply won't rely on vouchers as a basis for underwriting loans as multifamily rental housing, without significant additional credit enhancement. Without longer term project based assistance and a viable FHA insurance program, these efforts are procrastination at best.

So we need to focus on the financing delivery system. We saw last year that when many changes were made to the tax credit program many of which were well intentioned changes to help strengthen low income use requirements, that the impact of these changes on the availability of financing were not taken into account. We now find that debt financing for tax credit projects is difficult to secure—in part because of these changes.

We do not want the same thing to happen here. We need to identify the critical elements to make this system work well. There's no question about it, different localities have different needs. Some areas need more production of housing, while some have simply an affordability problem. Many localities have both problems.

Those areas that have only an affordability problem may not need 15 or 20 year vouchers. They may be able to deal with 5-year vouchers.

But those areas that need to produce housing have a very difficult time doing so under the existing system with the limitations placed on those programs.

Senator CRANSTON. Bob?

Senator GRAHAM. If I could go back to that example in Las Vegas that I referred to earlier. The head of the Las Vegas housing authority described the dilemma.

He was given the opportunity to use section 8 moderate rehabilitation to rehabilitate approximately 150 to 200 units. If he had had the same resources, but greater flexibility in how to use them, he said he could have produced 500 plus units.

In this issue of allocation of resources among programs, what ideas do you have as to how we could give that person in Las Vegas an opportunity to have greater control over a pool of resources rather than giving him a series of categorical programs that he had to operate within, and unfortunately, in this case, with a heavy political overlay as to what was going to be available to him.

Mr. LORE. I think some of that problem has been solved by last year's tax act which required local agencies that administered those credits not to give more credits than are required in order to make the housing feasible.

That's part of the equation. And that kind of policy is obviously important in the housing authorization side as well.

The other part is flexibility with respect to the remaining funds so that they're not forced to use them for something that that community doesn't happen to need.

Senator GRAHAM. But in Vegas, apparently, they were one of those communities that had an adequate supply of housing, a fairly high vacancy rate. And what they needed was more vouchers and section 8 certificates to use the stock that was already existing, rather than spending the money to rehabilitate housing to add to an already surplus supply.

How could we structure a program that would give that ability to move from supply to demand side as the local circumstance warranted?

Mr. LORE. The HOP program has that basic flexibility. But more importantly, you have had similar experience in other programs. Even in the section 8 program, localities, if they wanted to, could have, in certain years, converted section 8 from new construction units to existing housing certificates and vice versa—to meet specific housing needs.

We've got to be sure that the flexibility exists to do that. Funds must be efficiently and flexibly used. It is not difficult to provide this flexibility legislatively.

Senator CRANSTON. Would HOPE draw funds from other programs like section 8 and community development block grants with negative consequences?

Ms. RATTLE. They would take the three programs and they really gave it a new name. They called it a new program. It's the same program repackaged, which means that it takes away the flexibility. And I think everybody around this table has used that word already once or twice, maybe three times, that we're looking for flexibility.

This doesn't give it to us. You simply call the old programs a package now as a new program.

It seems to me that that's a bad idea because throughout, you're talking about CBG. You talk about rehab. And you're talking about use of section 8 or certificates.

So you've taken the tools that we've had. You repackaged it and have a more limited program where we have no flexibility. And I think that's the key to the problem.

Senator CRANSTON. Diane?

Ms. VONEIDA. Senator Cranston, if I could give you some specifics on, again, Rockford, IL, in terms of numbers by focusing on the block grant, rental rehab, and section 8, which funds would be re-programmed, as Mayor Rattley said, into to provide for HOPE and thus further eroding already cut funds under all three of those programs.

For instance, in our rental rehab program, we've been cut for us \$140,000 down to \$90,000 this year. We have a 5-year. We've managed to make it a very popular program. So we now have a 5-year waiting list.

Developers that have said, yes, we want to be part of that program, we're now telling them that they have to wait for 5 years until we, at the \$90,000 level, which is not a big amount of money, but it's a substantially successful program for us.

If you further divert that rental rehab program dollars to the tenant homeownership or any of the other HOPE proposals, that's going to make it even more difficult.

The same with block grant. We've managed probably ten different, very specifically designed housing programs that would have to compete with another housing program if you're going to ask us to match under the HOPE.

Finally, under the section 8 vouchers and certificates, our public housing authority has 700 people in the waiting list and that's a purged list, recently purged list. So they are very real numbers, and that represents a 3-year wait for section 8 certificates.

Mr. ROBERTS. Senator, we like the idea of—

Senator CRANSTON. Excuse me. Eva wanted to be recognized. Then we'll go back to you.

Ms. CLAYTON. I think we do indeed need flexibility. But if in fact you took the funds away from the programs that you have here, that would desperately harm folks in rural areas.

In addition to that, looking at community development, that's already proposed to be reduced. And if you're going to combine that program, not give HOPE any new moneys, you're really just shuffling moneys around. There is nothing to it.

Farmers Home Administration needs to be looked at and saved. Already, that has demonstrated its worthiness in rural areas. The proposal in the current budget the administration has is to reduce that.

If we're going to reduce that, that means that you're going to possibly lose 13,000 units that we need to save.

So not only in addition to combining the program as a whole, but the administration has already proposed to reduce the cuts in CDBG, reduce the allocation in Farmers Home. That means that

we're really going to have less monies to be flexible about or to coordinate.

So, in addition, we're reducing the Federal commitment to funding, for housing, low income housing in rural areas.

Senator CRANSTON. Mr. Roberts?

BENSON ROBERTS, SPECIAL ASSISTANT ON POLICY & PROGRAM DEVELOPMENT, LOCAL INITIATIVES SUPPORT CORP., WASHINGTON, DC

Mr. ROBERTS. The idea of getting States and localities to contribute money to this process is important, we believe. We believe that block grants should be part of that. Those argue for increasing the block grant program.

Right now, we are continuing to go through a period where the block grant program gets whittled away and whittled away and whittled away.

We need more resources from the block grant money right now without any changes to get into low income neighborhoods.

Nonprofit community groups who are doing remarkable things in their neighborhoods can't get at those block grant moneys now because those moneys are already committed several years into the future.

If we're talking about empowerment, have a larger pool of funds that they can have access to. If we're just going to divert more and more money away from the current block grant program, it's going to be impossible for them to develop the capacity in places where they don't have it and to apply their capacity in places where they do have it.

Senator CRANSTON. Mr. Slemmer?

THOMAS W. SLEMMER, EXECUTIVE VICE PRESIDENT, NATIONAL CHURCH RESIDENCES, COLUMBUS, OH, REPRESENTING THE AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Mr. SLEMMER. Senator Cranston, I think that you hit the nail on the head.

The problem is that each of us seems to be fighting for a bone that doesn't have any meat on it. That's why we're involved in today's roundtable discussion on the administration's HOPE and the National Affordable Homes Act. I believe that we're all in the business of providing decent and affordable housing and one reason we're kind of disagreeing to HOPE is because there's absolutely no money in this program to expand the supply of affordable housing.

There is no supply money to be addressed here.

For example, AAHA is concerned about the 202 program, and if you look at this program, it is substantially cut. It's a small program already. There are a quarter of a million people on waiting lists for the 202 programs across the country. A study last year indicated that there are eleven people for every single unit available in a metropolitan area.

Yet, this particular program which is greatly needed is going to be cut to fund other programs. In addition, funding the Congregate Housing Services Program [CHSP] seems to be shifted to fund another demonstration program.

While I think the tone of HOPE is good. I'm afraid that that's all it is. I think we've got to be careful when comparing these bills. Rather than sitting around here kind of debating each other, we should recognize that the problem is the supply side of this issue which is not yet addressed.

That's really the key issue I think we're all faced with.

Senator CRANSTON. Thank you very much. I think we should move on now to another point, tenant ownership of housing, in relationship to some other aspects of the bill.

Assistance for low income tenants who would like to become owners would be provided for rehab, operating costs, and economic development activities under the proposal. It would be expected that after 5 years, resident incomes would be sufficient to maintain ownership without the need for further Federal assistance.

Some of you question that 5 year thing.

The 1987 act opened the way for tenant ownership of public housing with one hard-won bipartisan condition. When a public housing unit is sold, it has to be replaced one-for-one with another unit that is acquired, rehabilitated, or built.

The HOPE proposal takes the position that a 5 year voucher is equivalent to housing units that will be around for 40 years or more. The HOPE bill would also count as a replacement for federally assisted housing in the same market area, even if it is located in a different community and would have been produced anyway.

And third, it would require no replacement at all if resale of the units is limited to families with incomes below 80 percent of area media income.

Now, based on your own experiences and knowledge, how well is the HOPE proposal designed to serve the long-term interests of tenant owners?

What are the consequences of changes that HOPE would make to the existing one-for-one replacement requirement governing the sale of public housing to tenants?

And finally, what principles and concerns should guide Congress and the administration on this aspect of all this?

Yes? Let me go over to Mr. Tetrault first.

Mr. TETRAULT. Yes. I, one, am the executive director of a local public housing authority, as well as a local housing finance agency. I also represent the NAHRO folks here today.

The first thing I would say is that, despite what some people say, homeownership by low income, even very low income, is achievable. Not everyone, but there are low and very low income people who can become home owners.

The Federal Government had what was called the Turnkey 3 program, back in 1970. Our housing agency produced almost 200 of those and have sold about two-thirds of those to people who came in with the public housing rental income levels. And with proper training and support, they are now in the private market as home owners of those units.

So one, it can work.

What I don't like about the proposals is that it takes a deep subsidy unit out of serving people who may not have that upward mobility. Some people are not capable of up and out. They're capable of in and support.

I think that that needs to be considered. By the sale of public housing stock, a creaming takes place. And let me use another local example.

Our public housing recently, in the last 20 years, has been produced through an inclusionary zoning law which puts individual units scattered throughout the entire county. It's Montgomery County here, a suburb of Washington, DC. Units are required to be built in the \$50,000, \$60,000, and \$70,000 range where market rate units in the same subdivision are at \$250,000, \$300,000, and \$400,000.

Those units are worth, when they're initially occupied, \$150,000. But they're public housing units purchased by us through the public housing program at the \$50,000, \$60,000, and \$70,000 range.

To make those units available for a one-time windfall, for one low-income family does not solve the long-term, ongoing housing needs.

So we prefer an up and out of the deep subsidy units. A family that's capable of homeownership, to move out of the deep subsidy unit, freeing that up for families who are on our waiting list.

Similarly, the 5-year voucher that HOPE provides, you asked for a specific consequence of a 5-year voucher. HOPE is essentially a displacement for those families that I described that don't have the up and out or upward mobility capability. It's virtually a displacement.

So I make those two points—a creaming of public housing is not good, and a 5-year voucher is a short-term recipe for disaster.

Senator CRANSTON. Yes?

Mr. HENDRICKSON. Senator, from a housing finance agency standpoint, sort of as a public lender, vouchers aren't bankable.

Mr. Zigas made that point. You can't take a 5-year voucher to the bank and get a loan based upon the fact that there's going to be vouchers in the market.

So the idea that vouchers will lead to replacement or creation of new units I think is fallacious. And in this HOPE proposal where you take public housing units out of rental and into ownership and replace it with a voucher, I think that that is going to lead to a net decrease in affordable housing for very low income persons.

Senator CRANSTON. Mr. Lore?

Mr. LORE. One must look carefully at the economics of each proposal—will they really work.

I agree with Mr. Tetrault that there are many situations we have seen where low income people can successfully become owners. There are those situations where it makes sense. Not every case or every place. There have been positive experiences in the 236 coop program, for example. There have also been some negative experiences, both in that program and in the 235 program.

Low income homeownership can work if properly administered in appropriate situations.

We are concerned that this proposal provides for tenants that do not elect to purchase their units to take available vouchers and move to other properties. This would leave the units they vacated without the vouchers. It is unclear to us what the economics of that underlying project will look like when the voucher that other-

wise would have stayed with that project to provide economic stability goes somewhere else.

In addition to judgments of whether the program is good or bad, we must look at the specific provisions of the proposal. Many of these provisions are designed to deal with important questions such as the issue of displacement in the issue which I referred to above. These are fine and justifiable goals. Ultimately the most important question is whether the home ownership is going to work economically. The last thing we want to do is to set up a program to fail.

Senator CRANSTON. Barry?

Mr. ZIGAS. I just wanted to make the overall observation, Mr. Chairman, that the problem that all of these HOPE initiatives try to address, in a sense, they seem to be premised on the idea that there's too much low income housing. There's too much housing that's out there available to low income people and therefore, we should start transferring out of the public sector.

And the fact is, I think, all of us here would agree, the problem is there's too little affordable housing available in the public sector.

Homeownership for any income group is not only feasible, it's desirable. And I would argue that if it's such a good idea, if it's as good an idea as Secretary Kemp says it is, then the department should be challenged to come to this committee with additional funding to develop additional units that would be available to help people move out of programs that now offer housing that is permanently in the public sector, that offers very low income rental housing, that in most cases is very well managed and for which thousands of people are desperately on the waiting list trying to get in, and instead, builds additional housing which will provide low income people the opportunity to become home owners if they choose to exercise it.

I'm very concerned, and one of the things that these proposals have generated is a telescoping of our vision, a tunneling of our vision, about is it good or is it bad to help public housing residents become home owners?

To me, that's just not a debatable point. It's a fact. Where it's possible, it is.

The more pernicious part of this proposals is it says, and since we're unwilling to add more resources to the pot, let's cannibalize the stock we have and let's hope for the best later on.

I think that's the most dangerous part of this.

I'd like to get back to just one other point that we discussed earlier, and that is this question of other resources being dragged into the equation. And is the HOPE program going to do that?

First, clearly, the HOPE program, as it's proposed by the administration, steals all the money from existing programs. The money issue is undeniable. It takes vouchers and certificates and says, let's use them for this instead of something else.

But the broader question about will it use community development money, will it use tax credits, will it use State and local financing, is a question you have to really honestly ask about both HOPE and HOP. And I think when you ask it of both, the answer is going to be the same for both. It's, yes, of course they will.

Everybody who's running programs at the State and local level I think will admit that you're going to have all these resources

brought into the picture. Until and unless the Federal Government quadruples the amount of money that it's spending on low income housing, which I think all of us understand is not a short-term possibility, those interactions are inevitable.

And in fact, they have to be encouraged. There's no other way to do this. So it's not a peculiarity of HOPE versus HOP. And I think it's important to say that when we discuss the two options, because the HOP program also, as Paul was saying when we talked about this at the National Housing Task Force, it was clearly our assumption that you lodge this responsibility at the State and local level because they were going to add all these other resources and they knew how to do that better.

Ms. RATTLEY. Senator?

Senator CRANSTON. Yes.

Ms. RATTLEY. There's one part of your introduction that I didn't quite understand.

It appears as though the assumption is that you provide this home for a resident of public housing. You renovate it and the payments will be within reach of the person, I guess.

Something was said about 5 years later, this person should be sufficient to really go on his or her own. That's the assumption. But I don't know what's going to happen to that person that will change that person in that 5-year period.

Is it education, job creation, just what it is that that person can't do now and then go in the market and buy a home?

The other problem I have, this person has purchased a home, met all the requirements, and then say the person is ready to fly. He has hope now.

What happens to that house if that person—and of course, the real estate values go up—if that person decides, say, I'm going to sell this house and take my equity out and move on.

Do you have any restrictions about what happens to that house? Is it just then a market rate house on the market? Does it revert back to public housing? What happens to it?

Is the tenant locked in for X-number of years? Is it 5 years? Can she sell it or can he sell it, take out the money and move away, or move to better housing?

These are some of the questions that are bothering me as to how it would operate.

Senator CRANSTON. Well, there certainly should be a situation where we don't lose housing that is kept at a price that is affordable for people that don't have many resources.

Let me ask Don Campbell if he can explain how the administration has thought this would work.

Mr. CAMPBELL. Actually, there are several different ways in which the resale restriction would work.

Under one part of the bill, if there are no other restrictions, then there would be a recapture phased in over a 10-year period. At the end of 10 years, as I recall, there would be no restrictions and the person could sell and essentially take all of the equity out. If they sell before that period of time, some portion of the equity would have to be turned back, partly to HUD and partly to the local housing authority, or the local tenant management corporation, as I understand it.

In that case, there would have to be some form of one-for-one replacement, either with vouchers or some other kind of housing.

If there is some other form of resale restrictions, then no one-for-one replacement would be required. The HOPE bill requires the resale restrictions to keep the housing available for those who are at 80 percent of median and below, which of course, is higher than the incomes of people now living in public housing.

So it assumes 80 percent of median and below would be an appropriate resale restriction.

Ms. RATTLEY. But what happens to the structure? What happens to the house? Is it just a house on the open market now?

Mr. CAMPBELL. That would be up to the local deal made with the tenant management corporation. They could have it structured so that it would be essentially a market property after 10 years, completely. And in the meantime, it would be some phase of recapture of any equity.

On the other hand, they could build in some resale restriction that would limit that.

Mr. HALPIN. Senator?

Senator CRANSTON. Yes.

Mr. HALPIN. We think that vouchers just aren't simply adequate to address the displacement of rental housing that could come as a result of this.

And in fact, I think that local governments should have the authority to veto conversion plans if they diminish the stock of low income housing as a result of conversions that could potentially occur under this proposal.

So it's important that there be protections in there to guarantee that one-for-one replacement units, that a plan for one-for-one replacement unit is in place and that it's real. And that if it isn't, that local governments have the authority to veto that type of plan.

One final thing. We just touched on it. Your restrictions really have to be attached to ensure that in the event that there is a resale, that it be made available to another low income family, that we don't end up in a situation where people are reaping an enormous windfall that in effect was subsidized by the taxpayers, initially.

And one final thought.

What happens if this tenant management group goes bankrupt and this doesn't work? Who then is going to step in to run the operation to provide the subsidies to do what is necessary to provide that housing?

I don't think that's adequately addressed, either.

Senator CRANSTON. That's a good question.

Mr. HALPIN. It probably will be local government.

Senator CRANSTON. Amy?

Ms. ANTHONY. I just wanted to say that, certainly for many States, two principles have been important. One principal in my own State which has been very important is preserving units that are dedicated to low income use. For example, in our preservation strategy dealing with expiring use properties, it's been very important that the units be retained as affordable over time, and not just

that the households currently occupying them be in some sense protected.

That's a very important principle.

On the other hand, the principle of making available homeownership opportunities has been a very important component of many State efforts.

What the HOP program would allow is the flexibility for us to address homeownership if it is most appropriate in our States through the production of new opportunities, particularly, I might add, opportunities that are available near where job growth occurs, so that that access to employment opportunity can really be there.

But those principles can, and often do, coexist, and in some States it's very important that they not be arbitrarily married in ways that risk losing units to the long-term supply.

Senator CRANSTON. Walter?

Mr. WEBDALE. I'd like to build a little bit on that and what Mr. Tetrault said.

That is extraordinarily important, that we have preservation programs in place right now and we do understand the need for building the goal of homeownership for many of the tenants.

In our community, as well as Mr. Tetrault's, you can graduate from public housing. There are local programs that will enable you to become a home owner, after you have been through training and have built your downpayment. You can now leave public housing and go out to the private stock and you don't lose this deeply subsidized to public housing—unit, which I think it's been kind of glibly said, we will replace with either vouchers or some other unit somewhere, some place else.

In my community, I have a lot of landlords that will not accept anybody with a voucher, no matter what you call it.

So you can hand somebody a voucher, but it's of no value in the rental market.

Second, I think everybody around this table understands replacing a low income public housing unit in your community, is no easy job. And especially one that's got a very, very deep subsidy.

And HOPE doesn't address that at all. That is just not the real world. I can't replace one-for-one.

Senator CRANSTON. Mr. Masanz?

Mr. MASANZ. Mr. Chairman, as the Governors Association looked at the broad issue of affordable housing, one of the items that came out was the federalism—what kind of partnership takes place?

And one of the words that I think has been missing so far when we looked at public housing is the deterioration effect, the loss of units through that area.

The Governors Association has seen public housing as a safety net program in which the Federal Government retains responsibility for.

The fact that there is so much boarded up and unused housing, on the one hand, it could be taken as, well, now it's an asset. We can make it homeownership. But I think it's important to remember that many of these are units which are needed simply under basic public housing. If, in the process of this change, what is lost is those units, there is in fact a shifting of responsibility. I think it's very important that the past administrations' failure to fund public

housing not now be used as a means of ending that responsibility, but, rather, that a responsibility that a level of funding be kept in public housing to retain and regain those units.

Senator CRANSTON. Let's move on to the prepayment issue, which has separate aspects from all of this.

The administration has now provided proposals on that. Its approach differs from the 1987 act provisions in a number of significant ways.

First, the proposal focuses on converting the at-risk stock to resident owners.

Second, where such transfers do not take place, it gives owners the option either to accept incentives and continue the low income use of the property or prepay and convert the house into alternative use.

Finally, where a prepayment occurs, displaced tenants will be provided relocation benefits by the owner and vouchers by the Federal Government.

The questions are how well designed is HOPE to preserve the at-risk, low income housing inventory?

What portion of that inventory is likely to convert to resident or nonprofit ownership under HOPE?

And what types of jurisdictions could these transfers be accomplished with the HOPE subsidy, which is equal to the discounted present value of a 10 year voucher?

Where it is inadequate, what additional sources of financing would be available to residents and nonprofits?

How well can the objective of preserving the low income use of the housing be achieved with a voluntary system which lets owners accept incentives or reject them and prepay?

How well will vouchers work in the jurisdictions where prepayment is most likely to occur?

What comments on that particular business?

Yes, Barry.

Mr. ZIGAS. Mr. Chairman, I'd like to say, as in so much of the HOPE proposal, it seems to us in working with many of the resident groups that we have been helping over the last few years in the prepayment area, that this proposal focuses on a couple of the trees but ignores most of the forest. And as such, again, it's useful for what it does highlight and pernicious for what it fails to address.

In emphasizing the need to provide subsidies and grant aid programs that would help tenants or nonprofits who work with them, acquire the stock and continue to operate it as affordable housing for low income people, we think that's a very useful addition to the current debate, one which we have been promoting actively on behalf of people we know who want to do that at the local level.

But it fails to take into account all the many situations in which tenants do not want to, will not be capable of it. And by leaving, in effect, a back door open, putting all the burden of preservation on either the tenants being able to come up with a competitive proposal the owner wants, or having HUD offer enough incentives to please the developer, but, in the end, leaving it up to the owner's discretion whether or not to preserve this housing, it is a very dangerous and incomplete proposal.

We do not believe that this stock of housing which is so valuable and so scarce can be left to a series of "we-hope" kind of proposals. And that may be the best way to characterize the preservation. It's not just hope; it's "we-hope. We hope this works out."

And we don't think the way this is structured now that it will. We believe there has to be a process through which all owners go. There has to be an attention paid to the need for a fair return to owners so that they are compensated for the use of the property, but one which facilitates the use of the housing over the long-term for low income people.

Using subsidies to help low income people buy these properties is an important element of that. But it is not enough on its own to facilitate that.

Senator CRANSTON. Ken?

Mr. LORE. We applaud the administration for a good faith effort to join the debate and add something positive to the dialog on this preservation issue.

It is a tough line that we have to walk between owners' rights and maintaining low income units for the low income people. What do we do to protect owners' rights which, in many areas with tax law changes and moratoria—been trampled while at the same time, dealing with the more important issue—the public issue of maintaining this irreplaceable low income housing.

One of the things that we haven't mentioned in the debate of whether we need more housing is that if we don't add new housing to our stock, we lose on a net basis every year. A huge number of housing units simply deteriorates, and is eliminated from the stock each year. Still more units are removed from the low income stock because it is fixed up and rented to higher income levels.

We need to add substantial new units just to stay even. And we certainly can't afford to lose any of the existing units that we have, at least in situations where the reasonable cost of preservation of the units makes economic sense. We recognize that there may be some cases where the cost of preservation of a particular project makes no economic sense for the Government—where needs are low or replacement of the units can be accomplished more economically.

We think some of the elements of the administration's proposal are positive. However, we have some of the same concerns that Barry has, and that is that the focus of homeownership is too narrow. There are many ways to deal with this problem—homeownership is merely one of many options.

Homeownership will work in some situations, but in some cases, it will not.

As I mentioned earlier, in response to Senator Bond's comment, we believe there must be other pieces to this puzzle. Ultimately, in order for the preservation effort to work there must be enough incentives. Tax relief of the kind referred to earlier will be necessary.

We believe the amount of assistance which will be necessary to make preservation work will have to be greater than what is proposed.

It's been mentioned a couple of times, I mentioned it earlier, 5-year vouchers will not provide for financing for anyone to acquire these facilities on any reasonable basis.

I'm working on some financings right now in an area where it's probably easier to finance conversions than in other areas. Two projects are in San Diego, in your State, Senator Cranston. We're finding that we have a very active and interested housing authority that wants to deal effectively with this issue. We have an owner that's willing to cooperate. Unfortunately, the 5-year, section 8 authority is so limited that we have not yet been able to arrange financing. Until we do, we cannot acquire the properties from the existing owner and transfer it to a nonprofit or public ownership to maintain low income use.

So we have to really look at the economics of these transactions—how they are going to work. We then must provide the appropriate incentives.

One other thing we must focus on the HOPE proposal is the incentives proposed to keep owners in the program. HOPE proposes to give section 8 contracts to owners.

While the 5 year contract is too short, we must also look at the level of income of—rents—that are proposed. The rents are to be at the lesser of 90 percent of fair market rents, or 80 percent of the economic rent based upon, the fair market value.

By definition, this constitutes a significant haircut, from existing rents in the marketplace. When you add these rent levels to the additional costs imposed on owners under the bill—perhaps up to \$10,000 in certain areas for relocation benefits and other kinds, along with up to a 3-year period to get through the process and you really have made it quite difficult for existing owners to make a deal. This is particularly true without any tax relief for owners.

The purpose is not to reward owners, but to incentivize them to get the property into the hands of those who want to maintain the units as low income in an appropriate way. Not to overincentivize them, but to incentivize sufficiently to save the units one way or another.

Senator CRANSTON. Yes?

Ms. MELKONIAN. Again, I think that's what both Barry and Ken have said. I point again to the fact that HOPE is presenting only a piece of the puzzle in this area. It's good to have an administration that's at the table on the issue at all, and constructive issues have been raised by them. Homeownership conversion being a part of the final program that, I think, will be part of a national housing policy this year.

But I want to point out one thing that might be an unexpected result of focusing on homeownership or tenant ownership in the preservation area, the conversion of the existing (d)(3) and 236 stock.

And that is that we may really be benefiting the higher income tenants, those tenants that have the ability to participate in a buy-out, as opposed to lower income tenants.

So that we may in fact be achieving the opposite result from what I think might be intended by the tenant conversion proposal in the administration's bill.

I think a constructive suggestion has been made, the idea of using the value of vouchers, as one tool to create the resources needed to transition this housing for long-term affordable use.

But any preservation program, it seems to me, has to retain the low rent character of this housing, or else we're simply losing it. And this can be part of the answer.

Senator CRANSTON. Yes.

Mr. WEBDALE. In that same field of retaining the low rent character and keeping the housing for another 20 years, we have that great problem of taking care of the present owner and seeing that we can buy him out at an equitable price. But we're talking about 20-year-old stock housing where the systems, the major systems, are 20 years old.

Where are the funds coming from, whether you go into homeownership or you go into a nonprofit, regardless, to correct those major systems problems that you're going to have—the heating, the air conditioning, the roof. Those things are wearing out in these buildings.

And so there has to be an additional supply of funds not only to cover the new debt service that you've imposed, but new capital costs.

I would say HOP does offer some help in all of this, especially in the area of financing up front, and that is with your credit enhancement proposals, which the HOPE, the administration's cutbacks in FHA and so on, offer us nothing in that area.

I just don't know how to finance these things. The vouchers don't work. There's no credit enhancement. There really is nothing in FHA that really helps right now.

So there's a lot of dilemmas. It's a nice concept, but when you add up all the numbers on the sources and uses, they don't balance.

Senator CRANSTON. Yes.

Ms. VONEIDA. In an effort to try to find something good to say about HOPE, let me say that there are jurisdictions that could use the resident ownership concept in the 10-year discounted present value, about \$60,000. And that would match the value of the building and maybe even take care of some of those systems in danger of failing.

I know they're located in the midwest—certainly Peoria, Omaha, Des Moines, and Rockford certainly could do that. But we don't have any cooperatives, history of cooperatives.

So there may be some difficulty with that. But it is an answer. It's certainly not the answer.

Senator CRANSTON. Let me move on to a topic that wasn't on the list of questions we gave to you, but it relates to this.

The administration and Secretary Kemp have repeatedly made the charge that all Federal construction and rehabilitation programs are inherently flawed and subject to widespread abuse and corruption.

As Amy Anthony noted earlier, Secretary Kemp stated last week that giving States and localities the flexibility to devise and implement their own housing programs would only institutionalize the pattern of abuse in their jurisdictions.

Now obviously, there are examples of housing programs that have failed in individual instances. There have been some terrible scandals. We've written legislation that we hope will correct much of that.

Clearly, lessons need to be learned and where particular buildings were not well designed, constructed or maintained, action needs to be taken.

But that is not to say that all past Federal efforts were failures or that fraud, abuse and mismanagement are somehow systemic to construction and the rehab programs. That just cannot be the case, in my opinion.

Clearly, the new wave of nonprofit housing corporations are deeply involved in construction and rehab activities. And the prepayment problem has taught local communities that the older subsidized inventory, largely developed and owned by private firms, has been and remains a vitally important community asset.

So that leads to a couple of questions.

How do you respond and how should the committee respond to this oft-stated charge that production is inherently subject to abuse?

Are there additional protections that Congress needs to consider to ensure that housing programs are implemented in a fair and efficient and honest way?

Yes?

Mr. LORE. Any time anyone produces anything, there will be abuses. But we haven't stopped making missiles just because there were abuses at the Department of Defense. And we can't stop facilitating affordable housing just because there have been a few instances in which there have been abuses in programs.

If one was to measure the success of the Federal housing programs over the years against almost any other major series or programs in the Federal Government to determine the extent to which the programs achieved their purposes. I think that one would find that the housing programs of this country would be at or near the top of the list of success stories. This country is as a result one of the best housed countries in the world although all have not shared in this success.

Every story has its problems. It is unfair to paint a negative picture of developers, nonprofits or anyone else with a broad brush for the negative experience that may have occurred in isolated instances.

It is an injustice to the success housing has enjoyed even though the record may have a few blemishes.

Senator CRANSTON. Yes. Let me go to him first. Yes.

Mr. HENDRICKSON. Sir, I couldn't agree more. Where there's money, there will be problems. I mean, if you have a bank, tellers occasionally steal money out of the hopper.

So there's nothing you can do that's going to totally remove a problem or anything where there's money involved.

But in terms of how do you ensure that you avoid that, I think that the process of having competitive decisions and processes administered at the State and local level is an extraordinary way to get away from abuse.

If you give us resources, we have a competitive process. The nature of that competitive process makes it very difficult for there to be abuse and fraud. The fact that there's a lot of people that want the money that don't get it, create a built-in watchdog of people that want to be in the program watching to make sure that

who we give the money to is being used in an efficient and a proper manner.

And in the low income tax credit program which Senator Graham mentioned, in the extension of that bill, that exact thing was done. In the extender of the tax credit program to this year, the allocating agency was made responsible at the State level for running a competitive process and to give the credits to the people that could most efficiently use it. And I think that that will prove to be a model for how to allocate funds under the HOP program.

Senator CRANSTON. Jessie?

Ms. RATTLEY. Yes. I would have to agree with the first speaker's statement.

We have an excellent housing authority and I know it may be an exception, but I don't think it is. I think that there are some built-in failures promulgated by HUD, and HUD has to share some of the blame.

I don't know personally the extent of the problem. When I talked to the Secretary, he indicated some housing authority had built a swimming pool. Then a few days later, there was an article that came out talking about a swimming pool as very much needed in low income areas, since about the best therapy there is for young people to deter them from drugs and crime and other activities that we talk about.

In Newport News, a year or so ago, all hell broke loose in our city. The housing authority bought an existing apartment building and turned it into public housing. That public housing unit had a swimming pool.

HUD paid to fill it in. And to me, it is a stupid, very unkind, inhuman, a place where you're going to have children, filled in the swimming pool because poor folks are not supposed to enjoy swimming pools. Poor children.

First of all, they didn't want them in the community and second, the swimming pool was too good, even though it came with the apartments. We paid for it.

I tried my best to keep it open as a swimming pool and open it up to the entire community. Then we ran into insurance complications and the basic people that people didn't want it.

Once some years ago, 222(d)(3) was being built very close to me. And I requested HUD to consider giving those people air conditioning. At that time you couldn't provide air conditioning.

These were three-story apartments and I said, number one, the people will not be hanging out of windows, hollering out. They would be quiet. People would stay inside during the hot weather. So no fights or very few fights or any of those things that we think about when we think in terms of low income housing.

So Mr. Kemp and maybe others, it depends on what they interpret as fraud and abuse. And some of the rules are not always clear.

But I do know, from personal experience, this was one illustration that Mr. Kemp gave to me for his charges and I think that it has not been fully researched. But I think the housing authority people have done an excellent job throughout this country over the years, all things considered.

In Newport News, and I'll be finished in a minute, we have a training program for tenants of public housing. Young women. I'm very proud of them. They come to me and ask me what should they be doing in their training program in the office of development.

HUD gave them \$19,000 and they came to me and said, what must I do with it?

So that's our ready situation leading up to the HOPE, that the money is going to these people who never had that money, know nothing about recordkeeping. And I think it's just really a trap for them to fail from the very beginning.

I told them that they should take that money, give it to the director of housing authority, let them keep it. And they make requests through vouchers for moneys to be expended. Because what's going to happen in the fiscal year, they will be charged with misappropriation simply because no guidelines—they don't know how the money should be spent.

They don't even know why they got the money.

And I wouldn't be surprised if the 6 or 8 ladies would decide one time, well, we have all that money. Let's, you know, kind of divide it up and do this, that, and the other. That may not be within the guidelines of this new program.

I guess it's an experimental program for our city. But I just had to make those comments. I've been out here, sir, for a very long time. I've been 20 years in public office and have watched this whole situation very closely. And I've always been concerned about providing adequate housing for the people who need housing.

I think that is one of those necessities of life that is the promise of America, that is part of that American dream. And it has been exacerbated tremendously for the last decade. And I just pray that we come up with the adequate housing policy and program so we can start housing our people.

And we've used all of our resources. The only money we got from the Federal Government is CDBG. And as someone mentioned, they're cutting that and they're saying they may not authorize it.

So we have critical problems and I certainly hope that you will not be disturbed by Mr. Kemp's report about fraud and abuse.

Certainly, the elected people and those professionals who are doing the job will have better skills to handle funds than people who have never had money before. And I want to emphasize again, I believe in homeownership. I support trying to provide adequate housing.

But I think you should look at the whole picture and make sure that the funds are not wasted. And the most important thing, I don't think that the cities and the people we have to serve should suffer for the fraud and abuse of HUD.

Senator CRANSTON. If any of you have any suggestions as to ways to strengthen present laws or any new programs to reduce the danger of fraud and abuse, that would be very helpful.

Yes, Nathan.

Mr. NAGLER. Yes. I'd like to suggest that funding should be channeled through organizations, nonprofit or other, that have proven track records. For example, B'nai B'riths sponsors buildings around the country. Every mortgage payment is paid on time and paid in

full. Every building we constructed has been built within budget and with very little or no cost overruns.

There are many sponsoring organizations operating today like ours that can produce the needed housing that HOPE or HOP can fund if given the opportunity.

Senator CRANSTON. How do you put that into legislation?

Mr. NAGLER. By strengthening the selection process. Sponsors should have to prove that they have a successful track record, with no fraud and no history of abuse. If I may again use our organization to illustrate.

Everybody in this room would be proud to put their parents in a B'nai B'rith sponsored housing development. We have over 3,500 apartments. There's no fraud. There's no abuse. We have the expertise to do it, and do it right.

We have hundreds of volunteers like me, never getting paid a single dollar, that watch over every penny that is spent in each of our buildings. We require two or sometimes three signatures for an authorization on each and every check that is issued. You can never insure that nothing will happen, but you can certainly decrease the opportunities.

I would recommend that you look for sponsors that can demonstrate a track record of excellent management and excellent development, and go with those. Go with those who have proven that they can be trusted.

Senator CRANSTON. Thank you. Amy?

Ms. ANTHONY. I really think, Mr. Chairman, that you should look to the kind of transformation of the process that Paul Brophy referred to earlier as the best insurance against the kinds of abuses that have occurred.

I think that when there's heavy participation at the State level and the local level, when there is more demand than can be met, when there is an active involvement, including resources from the State and local level, then you have the added oversight of legislative levels at the State and local level.

That kind of demand and that kind of visible accountability is going to bring protection. I don't think it's a protection that can be through detailed regulatory guidelines from Washington that can be achieved. It can be achieved by changing that process and ensuring larger levels of participation and accountability at the State and local level.

Senator CRANSTON. Paul?

Mr. BROPHY. I spent 11 years in city government in Pittsburgh, PA. I can tell you that there was a difference in oversight at the local level from those activities and projects which were purely Federal money and those activities and projects in which there was a local share that was being contributed.

And I think that the principle that is being proposed in the HOP program of bringing in the local and States in terms of program and policy development and in terms of dollars, will go a long way to producing more adequate program design and program oversight at those levels, which I think can be a major ingredient in helping to improve overall program operations.

Senator CRANSTON. I want to welcome Senator D'Amato, who has arrived now, who has been my principal partner in developing the

National Affordable Housing Act. We've gotten a lot of work done together. We now have the administration proposal that we've been discussing all morning.

Barry Zigas has been involved in this from the inception. Barry, could you sum up your reaction? [Laughter.]

Mr. ZIGAS. Would a simple yes or no suffice?

Senator CRANSTON. He'll hear it from his staff and he'll look at the record. But I'd like you to speak for the group.

Just briefly summarize what responses we've gotten. I started this, Al, by saying, what is your reaction to the HOPE program?

How do we improve it?

What are its weaknesses?

What are its strengths?

How do we incorporate it into our legislation?

We've gotten a pretty unanimous view, I think from the people that are represented here.

Barry, in a couple of minutes, could you sum up?

Mr. ZIGAS. Well, I'm speechless, right?

Senator D'AMATO. That is not the Barry I know. [Laughter.]

Mr. ZIGAS. I know. This is a set-up here. Well, I don't feel equal to the task. But having been asked, I will do my best.

I think, Senator, that what we've heard here today is that people are excited by the fact that the administration has come to the table with a proposal, that unlike the last 8 years, we have a team that's on the field.

But I think there's universal concern that the game they're playing is too narrowly conceived. The proposals they've made do not address the broad range of issues that your bill, for instance, the Affordable Housing Act, does, and other proposals that have been discussed in the last few years do.

That there is much too much of an intense focus on homeownership as a single focus of the bill, that it denigrates, to a great degree, the potential role of State and local governments and denigrates to a certain extent the history and accomplishments of existing programs which it proposes to either convert to some other use or to abolish altogether.

We have just been discussing some of the concerns that were raised by Secretary Kemp about, as he put it, institutionalizing corruption and inefficiency at the State and local level by moving in the direction of devolving authority.

I think everybody here has agreed that that is not necessarily the outcome. And in fact, you might find just the opposite, that the level of scrutiny and public review and so on at the State and local level is entirely different than it is at the Federal level and much more conducive to finding problems before they grow out of hand.

I had actually wanted to just address that issue here when I raised my hand so foolishly. [Laughter.]

Mr. BROPHY. Good summary.

Mr. ZIGAS. And say that I don't think we should overdo it here.

The fact is, as Ken said, when there's money on the table in any program, whether it's building missiles or feeding poor people or doing anything, the potential for abuse exists and not one of the organizations that any of us represents has clients or people who

are Simon Pure or not subject to the same temptations everyone else is.

I think it's incumbent upon the committee to add provisions that do require competition at the local level according to some set of criteria that meet the goals you set.

Congress has that function, I think, that you require a public viewing of key issues, as the tax credit legislation now does. Publish the sources and uses. Publish the key financial facts, because these are the ways in which abuses, fraud, excess are uncovered, and provide adequate funding for oversight and regulatory work by the agency.

I think there's been a tremendous neglect and all levels of Government, I believe, share a burden for it in not having funded oversight or maintenance in these programs.

One of the proposals in the HUD budget is to take a set percent of certain programs and allocate it to research and development, which is a way of trying to create an ongoing source of money.

And I would suggest you consider the same in your own proposal, that an ongoing percentage of everything that's appropriated be set aside for the regulatory and oversight functions so that it is not subject to a cut when something else seems more important.

We all would prefer to spend money on building buildings and providing services. And so the first thing you cut are the invisible services that make all the rest of it work.

And finally, I think we have to insist that when people break the law, they're prosecuted and they're punished for it. And surely, swiftly, and reliably.

Most people who testified—a lot of people who testified on the HUD scandal said that the first time, in the Robin HUD scandal, the woman who testified said, well, the first time I took the money, I really expected somebody to come back and take it, and I was prepared to give it to them.

And when I realized that nobody knew I'd taken it, it was a lot easier to take it the second time. And it got easier every time I did it because I became convinced nobody knew I wasn't doing it. It wasn't a question of having decided it was now right. It was a question of believing you could get away with it.

And I think that's the function that the Government honestly has to provide.

I wanted to ask your indulgence, Senator, because I have to run off and catch an airplane. I just wanted to say, on the homeless provisions, which you've not discussed, I would like to just put my 2 cents in on that and say that the HOPE proposals have moved in a very odd direction of restricting homeless funding only to those with histories of mental illness, of substance abuse, and other forms of problems, and would restrict funding in the SRO program and the other McKinney Act programs to this population, while at the same time disallowing people with AIDS from participating in these programs.

AIDS patients and people with AIDS symptoms are becoming a large portion of the homeless population in many cities. This is a bad mistake. And the committee has to look at the way that they've proposed to shift funding in these programs because it will leave what HUD itself says is the largest portion of the homeless

population in central city shelters without the services in housing that they so desperately need.

And so before I left, I really wanted to make sure that I got that on the table.

Senator D'Amato, it's very good to see you again.

Senator D'AMATO. It's good to see you. Mr. Chairman, I am taken by that excellent summary, for someone who is at a loss for words. [Laughter.]

But particularly as it relates to the homeless. I think, certainly, if anything, we want to provide the greatest latitude, it would seem to me, to the individual providers, whether it be in dealing with those who have alcohol problems, mental health problems, but certainly that is important and I'm pleased that you make mention of this.

I'd like to welcome, Mr. Chairman, if I might, Pat Halpin, our county executive of Suffolk County. People may think that our neighbors to the east are this very wealthy, affluent community because they hear of the Hamptons and the more fortunate brothers and sisters of ours who fly, take their helicopters and whatnot, and sojourn out to the Hamptons during the summertime and spend huge sums out there.

But that is not what Long Island and Suffolk County is about. It is a community that, indeed, is in transition, that certainly has great housing needs.

And Pat, I'm wondering if you couldn't make an observation as to what you believe is the most pressing problem, aside from the tax burden, that we hear from most of our constituents as it relates to suburban communities, dealing with housing, and what kind of flexibility do you believe that the county and the communities, the towns and the villages, need in order to make them more effective in dealing with these problems?

Mr. HALPIN. Senator, for us, and a lot of other suburban communities around the country, the last decade has given us an opportunity to build up a lot of expertise to address the affordable housing problems that all of us are confronting.

I think it's important that we build upon that expertise. And unfortunately, in the administration's proposal, that isn't the case. But in the legislation that you and Senator Cranston have developed, we build upon that partnership.

For us, particularly, though, there's an affordability gap. I think it's important that any legislation that's developed in the future give us sufficient flexibility to be creative in addressing the affordability gap, not just for low income families, but also for middle income families that are priced out of the housing market in places like Long Island, where we've seen housing costs escalate to the point where we're losing our best and brightest young people, as well as our senior citizens and, of course, homeless and low income find it impossible to find adequate housing.

So I would hope that the legislation that is being developed will be flexible enough to allow us to use local initiative and expertise, but at the same time, provide additional resources, additional dollars to bridge that gap so that we're providing sufficient housing for our best and brightest young people, who we're losing to other regions of the country because of the lack of affordable housing,

and also provide dollars directly to help people who are simply priced out of the market who now find themselves homeless.

Just one thought on the homeless.

For us, one of the fastest growing segments of our homeless population are women and children fleeing abusive relationships. It is a very serious problem.

To restrict your criteria to what the administration recommends really hurts us in addressing the complexities involved in homelessness.

We're building a transitional facility through the Governor's son, Andrew Cuomo and the HELP organization, 75 units of transitional housing to help women with children get back on their feet—social services, day care, all of the resources are there on site. And we're not spending more money than we're presently spending; we're just redirecting it more effectively, more efficiently through this not-for-profit.

We have to have that flexibility to deal with complex problems like that. And your legislation does that, and we appreciate that.

Senator D'AMATO. Well, you touch on a problem as it relates to the homeless population growing in the women and children.

There's another aspect of that, those who are alcohol- and drug-dependent, some with children. And it's a growing segment of the population. And we find that most vulnerable and not nearly the attention.

When we talk about the drug crisis, it seems that this is a whole segment of our population that has just been forgotten.

There's been some unique work done, I know in Rochester, Monroe County. They've got a fine program that's beginning to deal with this kind of need. And I would suspect that even in our suburban communities down State like Nassau and Suffolk, that that also is a growing part of a trend that we see as it relates to those who find themselves without shelter, without place, with young children, et cetera, cut off from community, alienated, and if left to their own, the consequences are devastating not only to that individual and to their family, but to society.

Senator CRANSTON. Eva?

Ms. CLAYTON. I wanted to speak about homelessness in terms of a different segment, if I may. Particularly those who are migrant farm laborers.

Oftentimes, we don't see them as homeless because they float from one area to another. But in many of the communities, because of the way we count them, when we don't know that in the areas where they may be, and they're not counted in November.

So we need to find a process by which we really begin to look at those States, including yours, California, and others, where there's a high concentration of migrant farm laborers that fluctuate in different peak growing areas. We need to find ways in which—HAC, I know, has now communicated with many of the States to indicate their interest in trying to address the needs of migrant workers where not only the housing is deplorable; it's just nonexistent.

And as we think about homelessness, I just encourage you to include that group of people and their families. And they are families who grow our crops and we don't think of them because they're not as visible on the streets. They move from one place to another.

So I would encourage you to at least look at a possible demonstration project where we encourage those States that want to participate in sheltering these people, to find a way of counting them during their peak growing periods and then find some ways of supplementing their shelter by providing some demonstration moneys to support that.

Senator CRANSTON. Thank you. I think we might move on to the final question, before the wrap-up question that was in the material that was given to you on supportive services.

Many people now realize that housing for people with special needs must be more than bricks and mortar. It must be housing that combines an appropriately designed building with supportive services tailored to the people that will live there.

This sort of housing is the focus of a major title of the National Affordable Housing Act. It provides supportive housing for elderly persons, persons with disabilities and homeless persons, by providing incentives for supportive services in the federally assisted housing where these people live.

HOPE generally takes a different tack, encouraging the linkage of services to tenant-based vouchers.

Now the questions.

What do you see as the important differences in the approach to supportive housing taken in the National Affordable Housing Act that Al D'Amato and I and others put together, and the HOPE Initiative?

Are the two approaches mutually exclusive?

Do we need programs that tie services to programs like public housing and section 202 housing, as well as vouchers?

Who has a comment on that point? Yes, Mr. Slemmer.

Mr. SLEMMER. Tom Slemmer representing the American Association of Homes for the Aged.

I believe that this is a critical issue. As I indicated earlier, I think the tone of HOPE is good. Yet there already is a demonstration program [CHSP] in existence. I guess it's questionable how this new program would be funded.

It seems that this proposed HOPE elderly program is creating a demonstration that will serve 1,500 frail elderly through a linking of service vouchers with 5 year section 8 vouchers. Yet the Congregate Housing Services Program is already serving 2,000 frail elderly people in public and section 202 housing facilities.

So I'm not sure where the trade-off is. I'm also concerned, as most of the State and local government representatives here, about the matching aspects of the HOPE program. The matching requirements are, I believe, 1:2 versus 1:4 in your National Affordable Housing bill.

I think project-based supportive housing is absolutely essential particularly as residents age in place. It's certainly addressed in S. 566. The average age in the present inventory of 200,000 section 202 units is now about 76 years old. Estimates are that 25 percent of these people are estimated to be frail, and need supportive services.

That's something that the HOPE emphasize on homeownership initiatives isn't going to adequately address. There's a group of

older people aging in these existing Federal assistance housing that need project assistance right now.

So I think, that the efforts that your bill, S. 566, addresses is for these elderly people that are currently in section 202 units and other federally assisted housing units for the elderly by providing supportive assistance in their project.

Our experience is that older people are moving to federally assisted housing units because they're impoverished by an existing house. For example. It's not a homeownership issue. It's an issue of trying to get into a building that provides affordable housing with some supportive services.

I think we need to incorporate some of the HOPE concepts into your bill and add some money so that we can adequately address the supply issue.

Senator CRANSTON. Any other comments on that? Yes, Amy.

Ms. ANTHONY. Senator, I think that there's room for both approaches. We certainly found a critical need for project-based linkages for both the aging and care populations, as well as for other kinds of disabilities that need services. That often has to be done within developments.

We also, however, have been able to use linkage services with scattered type populations. Both are needed, again, I would emphasize, in this area. It's the critical link to the State level, in this case, because so often, the State and local level is where services are provided. Certainly, the coordination has to occur at the Federal level, at the State level, and at the local level for effective linkage of services and housing to occur.

It's a complicated and difficult effort which we have some significant experience with, especially on the congregate side.

Senator CRANSTON. Yes?

Mr. NAGLER. Senator, I think that the National Affordable Housing Act (S. 566) is a remarkable piece of legislation, especially with respect to the coordinator of supportive service. We have been arguing for years that the cost of a service coordinator position be allowed as a project operating expense. We are very pleased to see this provision as part of your bill.

We also heartily applaud project retrofit. Apartment buildings that are now being constructed under cost containment guidelines are exhibiting a new set of problems. In a project we are developing in the Bronx, NY, we cannot include a community room of sufficient size where all the residents in that facility can sit down at one time under the same roof.

Now, it seems to us that cost containment is just a means of taking away resident services. In this case, we are not discussing a kitchen. We are not discussing providing a meal service. We are simply talking about providing a room in a senior citizens apartment building where residents will be able to play bingo—my God, if we were not able to provide bingo, we would probably have a revolution in the United States. [Laughter.]

Monday night bingo. For any resident who is not able to play, not to be able—it's a serious thing. It may be funny to me and to you, but to not be able to come down and play bingo on a Monday or a Tuesday night, is a serious thing. It is as important to some of

our residents as it is to have our regular resident committee meetings.

I am basically suggesting that, yes, while we must have reasonable cost containment guidelines, we also must be able to provide enough of the basic amenities so that we don't end up putting up warehouses.

I would rather not identify the individual, well, but, we have been told to go back to the drawing table and come back with a Velveeta box. A square building with no amenities and no windows at either end of the hall.

We at B'nai B'rith would not like to believe that the U.S. Government would actually support the production of this type of housing for our senior citizens. I strongly urge that the services component of S. 566 be retained in its strongest possible terms, and I compliment you on it.

Senator CRANSTON. Yes.

Mr. SLEMMER. I just want to add another concern quickly, that is one of the important parts of your proposed legislation which is Project Retrofit. I think that's a very important program in your bill. There's a lot of older 236 housing and section 202 housing that really needs some extra space.

There are also some newer housing which also need retrofitting. I mentioned in another committee hearing last year that we've just built a couple of 40-unit section 202 buildings in your State, Senator D'Amato, in which HUD would not let us put in an elevator.

So I'd recommend that the program be enacted right away to enable the installation of an elevator in multistory elderly housing. We need that desperately.

And I think Project Retrofit is an important program in S. 566 and I hope it doesn't get left out.

Earlier we talked about funding. There was just a recent study commissioned by the American Association of Homes for the Aged which surveyed the general public which revealed that about 89 percent of the people surveyed agreed that we need more federally assisted housing for the elderly and that 73 percent of those felt that the Federal Government ought to have a major role in the financing of that.

So, it's obviously a popular issue. I hope it doesn't get left on the back burner. I believe that it's a very important issue similar to the Medicaid problems that we are also facing in our country over the next 20 years.

Ms. CLAYTON. Senator, may I ask a question?

Senator CRANSTON. Yes.

Ms. CLAYTON. Your current bill—has Senator Sanford's bill already been incorporated which speaks to the rural areas?

Senator CRANSTON. We're going to cover Sanford's proposals. It will be included in the redraft we're preparing to mark-up.

Ms. CLAYTON. It will be?

Senator CRANSTON. Yes.

Ms. CLAYTON. OK. Thank you.

Senator CRANSTON. Yes.

Ms. MELKONIAN. Just to mention it, at the other end of the spectrum, the supportive services that are necessary for children as well, the kinds of things that support the housing environment,

like learning centers and day care centers that are really an integral part of successful family housing.

Senator CRANSTON. Yes.

Mr. LORE. Senator Cranston, the question of housing related services, is a broad and important one.

Those of us who have supported housing over the years have often been disappointed that the base of support for housing was not broader. One problem in garnering support is the simple fact that Americans are well housed.

We must spread the message that housing is more than shelter. Other Members of Congress and the American people must understand that housing conditions have an impact on the social and economic fabric of our society. A child needs a good home to be able to take advantage of a good education, for example. Linkage of services is important to housing.

I deal with many private, public and nonprofit entities who have developed successful low income housing projects by providing job training, child care and other services. In many cases these are not limited to their own facilities. Housing is an important part of a community. The environment sets the tone for all that happens in a community. Good housing without social services, law enforcement, education and drug programs will not be successful.

The issue is a broader one and required linkage of housing and other disciplines. The administration's bill and your own seems to have focused on this important nexus.

Senator CRANSTON. Mr. Roberts?

Mr. ROBERTS. It's also important to make sure that these services be provided within an overall community development context in the inner cities.

CDC's are among the most active producers of low income housing. But they're not housing organizations. They're community development organizations.

And many of them, even though they're not serving special populations such as the elderly or the disabled, are building tenant services into their own housing programs, as well as day care and a variety of other linkages with employment training and the like.

And it's critical that we recognize the value of that. It's not just good for the community, but it's good for the overall housing stock, because if we care about preserving the housing stock overall, then we have to preserve the communities where low income people tend to live and where that stock is most vulnerable.

So it links back to a very earlier point made about if you empower people, will that help boost the housing stock? Well, it may save some of the housing stock in those low income neighborhoods.

Senator CRANSTON. We should try to end this about 15 minutes from now, about 12:15.

Let me ask now a general question.

Is there any major point that was not covered by the outline that we sort of followed? Is there any point that we haven't somehow touched upon, anyway, that any of you would like to bring up at this stage, particularly as it relates to the HOPE program.

Mr. NAGLER. Yes.

Senator CRANSTON. Yes.

Mr. NAGLER. There is a provision in S. 566 that requires the sponsoring agency to contribute 5 percent of the total development cost of the project. This requirement will have a chilling effect on the volunteer sponsors, even though we realize that HUD can waive the requirement.

But, to expect a group of volunteers to be able to absorb this heavy a burden is somewhat unrealistic. Take the building I discussed earlier that we have in the Bronx. It's a \$10 million building. Our group would never in a million years be able to find \$500,000, to sponsor a building like that.

This requirement would absolutely stop the volunteer side cold from producing housing.

I urge the committee to eliminate this provision and stay with the \$10,000, half of 1 percent, limitation, that is currently in the section 202 program.

Mr. MASANZ. Senator, within the Operation Bootstrap Program, which is one of the supportive service programs, there is some concern the way it is structured, in that it appears that housing assistance would be denied to individuals if their State or local government was not able to provide—it's questionable, its linkage to other supportive services.

And just exactly how that is written could, I think, be very problematic. A situation where States and localities, as well as the Federal Government, have limited resources.

In many places, they are trying to provide more housing or other kinds of assistance. If housing assistance, Federal housing assistance, in vouchers would be denied to those individuals, because there are not sufficient links to other kinds of services, I think a worse situation could result.

I think, clearly, the approach throughout S. 566 is to establish incentives so that those kinds of linkages would be made.

But to threaten the actual availability of that assistance I think is problematic.

Senator CRANSTON. To be specific now, what elements of the HOPE initiative are important enough, in your judgment, to mean that they should be retained as the legislation moves through Congress, and what elements need to be revised and retained?

Yes.

Ms. MELKONIAN. Well, I'm not sure that they're elements. They're more concepts. I would say, that HOPE brings to the forefront certain issues that, I think, we would want to examine in the context of the National Affordable Housing Act.

Those are: homeownership for low income families; a focus on supportive services, tenant needs other than housing; and, support for what are called nontraditional housing providers, such as tenant cooperatives and nonprofits.

But, again, not as a replacement for a supply program, a delivery system, but as elements of a new policy that will, in fact, include the major missing ingredients of HOPE, which are money, and a broad enough spectrum of programs and devices to actually address the affordable housing problem.

Ten years ago, we were providing 300,000 units a year, 200,000 of new construction or rehab, and 100,000 of certificates. Now we're providing only 82,000 certificates.

So we stopped the production programs almost 10 years ago. We have to get back into this business with a coherent policy. The administration is, as Barry says, a player on the field. That's better than what it was for the last 8 years.

I think we have the makings of a new bill and a new policy and I think it's very encouraging.

Senator CRANSTON. Any other comments?

Mr. MORAN. One final sort of wrap-up comment, Senator.

Housing is not—I don't think that we're trying to provide housing for the sake necessarily of housing in this context, but to get people into a mainstream in a way that they can stay in the mainstream and ultimately be self-sufficient.

It is critically important that local and State governments have the flexibility to respond to their needs and using their existing resources.

Your proposal enables us to do this. The HOPE proposals does not. And I think part of the reason it does not are political reasons.

Let me give one example in the Washington area.

In the last 6 years, we created 450,000 jobs. We only created a little over 200,000 housing units. Many of those jobs were in the service sector, and they require people that will work for low and moderate-incomes. But they are critically essential to this economy.

Over the next 20 years, we are going to create another 1.3 million jobs in this area and we will see an increase of only about 600,000 households.

We have a very serious jobs-housing mismatch. We are in desperate need of affordable housing.

This HOPE program doesn't help us at all. Housing is a function of funding, of land use, and of transportation. We have the ability at the local government to make the kinds of land use decisions that will accommodate, that will enable affordable housing to be created. And if we can get some help from the Federal Government in a partnership, we can provide the transportation that will get these people to the jobs that are being created.

It doesn't make sense to be making this kind of legislation in a vacuum and creating housing opportunities where there are not sufficient jobs to sustain those people in the economic mainstream.

Our point is that this is all an integrated effort to provide a higher quality of life for people who don't currently have it.

We need a Federal partnership, not a unilateral program that is going to accomplish a lot of political benefits, but little long-term benefits for the administration.

We back your program 100 percent. This is not helpful to us and I have to say, in the Washington area, the HOPE program may be nonexistent because it does not give us the kind of flexibility to provide the affordable housing that we need to fill the jobs that are being created here.

Thank you.

Senator CRANSTON. Yes, Mr. Brophy.

Mr. BROPHY. Senator, let me reemphasize a couple of points that Marilyn made. I think she gave a very good summary of some of the principles and issues that ought to be carried forward from the HOPE program.

And I would point out, there is now movement on the part of the administration to emphasize the connection between housing and support services, the role for nonprofits, which are important, and the targeting of resources of some of these special needs groups which are identified in the HOPE bill.

I would add to what Marilyn said, and although there does not appear to be disagreement on it, that the extension of the low income tax credit is obviously something that needs to be continued. It's in your bill and in the tax bill and it's in this HOPE bill, and obviously, an important program and one that should not be forgotten in this discussion. A permanent conclusion.

Thank you.

Senator CRANSTON. Are there any elements of HOPE that we have not yet discussed that are troublesome and that need some revision?

Yes.

Mr. SLEMMER. One minor area, at least I think it's minor, is the 202 program. It appears that HOPE cuts the 202 program in half.

I'm not sure of that, but there's a program that has been a very good program, certainly needed, and yet, somehow, it's cut in half. There is some feeling that the leasing vouchers are just another voucher and a way to cut that further.

I'd really be cautious about that and I'd urge you to do that.

Senator CRANSTON. Thank you. Any other points that anybody wishes to make?

Yes.

Mr. TETRAULT. We didn't talk much about HUD itself. I think we need to reinvigorate HUD and make public service a good word rather than a bad word. Help them with the oversight and the creativity.

What greater need is there than shelter, other than maybe food and air? And yet, the agency that is responsible for providing that has such a negative image these days.

I think whatever can be done to reinvigorate that organization, provide for the creativity within that and make public service a good word again, is something we didn't hit on today and I think it's related to what we talked about this morning.

Senator CRANSTON. How do we do that legislatively?

Mr. TETRAULT. How would I do it legislatively? I think HUD, for instance, got cut since 1981 of like 1,500 work-years. And we talk about the poor oversight that has been done. I mean, they almost go hand-in-hand. You can't ask no one to do oversight. Someone has to do it. And that takes funding.

So, I don't know. Support the Secretary in some of the clean-up efforts that I think he's doing.

Specific section and verse, I can't give you, but I'll think about it.

Senator CRANSTON. We've hoped that the HOME Corporation that we have in the National Affordable Housing Act would be sort of a hot spot that would attract some new vibrant people to HUD.

Yes, you had a comment.

Mr. MASANZ. Yes, Senator. I think, first of all, again, to thank you for your leadership and for this opportunity to hear from a wide range of concerns, which is useful to you as well as, I think, to all of us to get some view of what is happening around the country.

I think, clearly, the HOME Corporation is something that we did not mention today. I think it is an opportunity to put into HUD a new instrument, a new location for discussion of the kinds of things that have been going on in States and localities for the last 8 to 10 years when the Federal Government has backed away from a lot of these responsibilities.

And I think with that creation, I think we have the opportunity with Secretary Kemp's enthusiasm and sincere interest in, I think, the increasing options and opportunities for low income persons. I think that while we did not focus on that as a major part of our discussion today, that, clearly, the development and the creation within HUD of a fully staffed HOME Corporation, I think that that's going to be an issue, to make sure, as Mr. Tetrault just said, make sure that there is adequate funding for that, the administration of that agency to do the kind of work that's necessary to provide the support to states and localities, so that, as we take on these responsibilities, hopefully through the HOP program, we have a better chance of success.

Senator CRANSTON. I presume you're likely to have some afterthoughts following this session. And if you have anything you want to get to us that you think would help the subcommittee, please submit to us in writing any statements that you have or any advice that you have.

You've left us now with a sort of difficult and delicate task of trying to figure out how to revamp, revise and accept as much of the HOPE concept as we can in the legislation in order to ensure or help ensure bipartisan support and to help ensure that we'll produce a bill that the administration will sign and support.

We have some hard work and any further thoughts you have on how we go about doing that would be deeply appreciated and would be very helpful to us.

Any further comments, or is that it?

[No response.]

Thank you all very, very much. It's been a very useful session. Thank you.

[The prepared statements of the participants and answers to written questions follow.]

[Whereupon, at 12:10 p.m., the roundtable hearing was adjourned.]

LOCAL INITIATIVES SUPPORT CORPORATION

Testimony

of

Benson F. Roberts

before the

Subcommittee on Housing

Senate Committee on Banking Housing and Urban Affairs

Regarding the Administration's HOPE Proposal

March 29, 1990

Testimony of Benson F. Roberts

Good morning, Mr. Chairman. My name is Benson Roberts. I am here today representing the Local Initiatives Support Corporation (LISC).

As you know, LISC is a national nonprofit organization that provides technical and financial assistance to nonprofit community-based development corporations (CDCs). We began operations ten years ago with \$10 million from the Ford Foundation and six other foundations and corporations. Since that time, we have raised over \$300 million from 600 foundations and corporations, and we have assisted 550 CDCs in the development of 21,000 low-income housing units and 6 million square feet of commercial and industrial space. Last year alone, we provided \$94 million in financing to help CDCs produce 5,000 low-income housing units. We are now working in approximately 35 cities nationwide. This activity makes LISC the largest single source of support for CDCs in the United States.

We appreciate the opportunity to present our views on the Administration's HOPE proposal. I will mostly confine my testimony to the three HOPE grants programs, except just to add that we are pleased that the Administration is supporting an extension of the low-income housing tax credit. We believe, however, that a permanent extension would be far preferable to the one-year extension the Administration proposes.

In general, we are delighted that the Bush Administration is willing to considering new housing initiatives. In addition, we believe the HOPE program contains some important goals:

- Increasing resident participation in multifamily housing; and
- Building the capacity of nonprofit community-based and resident-based organizations to preserve government owned and troubled housing for continued low-income use.

Nonetheless, HOPE has serious deficiencies as the centerpiece of a federal low-income housing policy. With substantial modifications, however, we would encourage HUD to test some of the ideas reflected in HOPE under the discretionary authority you and Senator D'Amato have proposed as part of the HOP program. As you know, Mr. Chairman, LISC's President, Paul Grogan, was a member of the National Housing Task Force whose recommendations were the basis for the HOP. We are enthusiastic supporters of the HOP because it would stimulate flexible, locally driven partnerships that will be truly responsive to a new wave of low-income housing production systems.

In our view, while the Administration has embraced the rhetoric of this new wave, in reality HOPE is too fragmented, rigid and centralized. In addition, certain elements,

particularly those involving the transfer of troubled and foreclosed multifamily properties to resident ownership, could collapse under the weight of too many ambitious objectives, as I will discuss in detail later.

Most fundamentally, however, we fear that the Administration has misconstrued the concept of empowerment, which the Administration stresses and we agree is central to HOPE's vision of housing as more than just shelter. Indeed, because HOPE would deny local neighborhoods the power to set their own priorities and find their own solutions to their problems, HOPE misses a critical element of empowerment.

We believe that empowering neighborhoods, and not just individuals, is essential to achieving HUD's goals. Individual empowerment without neighborhood empowerment will be both harder to achieve and limited in impact. First, if we care about empowering individuals, we must help create the kind of communities where people are encouraged to empower themselves. It is no secret that individual aspirations and behavior are largely a response to what people see around them in their neighborhoods. It is unrealistic to expect most people living in a disempowered inner city neighborhood or public housing project to believe in their own personal empowerment. Second, if we care about preserving the overall stock of low-income housing, then we must empower and stabilize the low-income neighborhoods where this housing tends to be concentrated. Third, if we care about long-term empowerment, then we must institutionalize empowerment within low-income communities. As social scientist William Julius Wilson points out, a crucial consequence of the concentration of poverty in American inner cities over the past 20 years has been the destruction of community institutions that are essential to social stability. CDCs are, we believe, important stabilizing and empowering institutions for low-income communities.

The centerpiece of HOPE is a series of initiatives designed to facilitate the acquisition and rehabilitation of government-owned and distressed housing for sale primarily to the low-income tenants of these buildings. To a CDC pursuing its neighborhood's own vision for revitalization, the usefulness of these HOPE programs would be coincidental at best. For example:

- What if a community's priority is low-income rental housing? We agree with HUD that homeownership is important, but strongly disagree that it is always, in HUD's words, "superior to rental housing in cost effectiveness and resident satisfaction". We would be delighted to show you CDC-sponsored rental housing that is both cost-effective and resident-empowering. Moreover, why should LISC, HUD or any other outside organization tell the neighborhood it should only undertake homeownership? In contrast, the HOP program could be used for either rental or ownership housing.
- Similarly, what if rehabilitation does not make sense for a particular

neighborhood? In some cities, Miami for example, the housing stock generally does not lend itself to rehabilitation; new construction is more cost-effective. In other communities, new construction is needed to signal the revitalization of the neighborhood, in order to attract families with a mix of income levels. The HOP program would leave that decision up to the community. Under HOPE, however, new construction would be prohibited.

- Finally, assuming that a CDC does want to acquire and rehabilitate housing for homeownership, what if the housing most important to the community does not happen to be government-owned? To a community in need, a house is a house; its current owner is of little importance. What if the housing is owned by an absentee landlord, an elderly couple that can no longer remain in the house, or a healthy financial institution? Since HOPE could only be used for publicly-owned housing, the CDC would be out of luck.

In each of these cases, HOPE would thwart the community, not empower it. In fact, a CDC might think a better name than HOPE for this narrow policy would be **FRUSTRATION**.

Accordingly, we prefer a far more flexible and decentralized approach to low-income housing policy that can empower low-income communities. The federal role should be to set forth a few essential principles -- income targeting, community resident participation, program-wide local match requirements, and the like -- and then give states and localities maximum flexibility in applying them. This is essentially the HOP approach.

States and localities are better positioned than HUD to understand and respond to low-income community needs on a timely basis, forge public/private/community partnerships, and select and oversee projects to receive funding. Moreover, it is important to use federal housing programs to build capacity among state and local governments. Engaging state and local governments in the process is the best way to make them active partners; and their active partnership is essential to creating local housing delivery systems to which states/localities will commit both financially and politically. HUD should, of course, carefully monitor state and local government performance, and facilitate the transfer of expertise among states and localities.

Another general concern is that HOPE seems designed to solve the federal government's problems more than to increase low-income housing. The primary focus of HOPE grants would be to transfer responsibility for public housing, troubled or foreclosed FHA properties, and RTC inventory from the federal government to tenant groups. HOPE grant funds would be used in effect to bail out or prevent claims against the FHA insurance fund and the RTC. Current tenants would receive only vouchers or certificates,

under which federal assistance would terminate after five years. No new housing would be produced, except insofar as vacant single family houses would be rehabilitated under the Nonprofits and Affordable Housing component. Moreover, HUD would fund its FY 1991 commitment to this effort by cutting the critically important and already overburdened CDBG program. Cutting CDBG would be particularly misguided because it is one of the only available sources of local matching funds that HUD would require for the HOPE grants. While we support the requirement for local matching funds and agree that CDBG funds should qualify as local match, this philosophy argues for increasing the CDBG program, not cutting it yet again.

Finally, the HOPE grants are much too prescriptive, and run a substantial risk of failure by seeking to satisfy too many objectives at once. The Urban Homesteading for Multifamily Housing Program illustrates this problem.

First, let us keep in mind that this program would apply only to occupied projects that have already failed or are troubled. In other words, private owners have given up trying to maintain this housing for low-income people. It would be no small achievement just to rehabilitate these buildings and preserve them for low-income occupancy under nonprofit or resident control. Rehabilitation is especially difficult where buildings are already occupied. And in many cases, new management must be put in place.

Adding a homeownership requirement would add substantial additional complexity.

- First, many tenants in place have very low incomes and simply lack the financial capacity to be homeowners. Some residents will inevitably encounter problems in meeting their financial responsibilities, thus jeopardizing the stability of the entire project, not to mention the other residents who will have invested so much of their own resources in it.
- Second, the program envisions conventional bank financing as part of an overall financing package. Even if very low-income tenants in place could qualify for conventional purchase financing, condominium and cooperative financing sources typically require some threshold of sales to owner occupants as a prerequisite to approving to a multifamily owner-occupied project. HOPE's prohibition against evicting tenants who do not wish to purchase their units — an understandable social policy imperative — will make it difficult or impossible in some cases to achieve the threshold of owner occupancy required to secure financing.
- Third, let us assume that in some projects — it is impossible to predict at this time how many — a substantial number of tenants choose to move out rather than to buy. In many markets, it may be extremely difficult, if not

impossible, to attract qualified buyers to multifamily properties. Except for a few big cities, multifamily housing has generally not achieved broad market acceptance among homebuyers, who greatly prefer single family detached houses or, at minimum, townhouses. Since HOPE prohibits renting vacated units to new tenants, a project's financial stability would again be at risk. HUD would have no obligation to step in, and would be statutorily prohibited to permit rentals.

- Fourth, homebuyers as well (as tenants choosing to move out) would receive only five year vouchers or certificates, after which they would be expected to be self-sufficient. Helping poor families move from dependency to self-sufficiency is one of the most important challenges facing America today, but it is also one of the most difficult and least understood. The problem is not made easier by the fact that under Section 8, a family loses 30 cents in rent subsidies for every additional dollar of income it earns. This effectively subjects Section 8 tenants to a higher tax bracket than even our nation's highest-income taxpayers, and families also receiving other public assistance face an even worse disincentive. In this context, it is simply not prudent to make the financial survival of the entire project and its other residents dependent on all families achieving self-sufficiency. In addition, five year certificates or vouchers cannot be used as a basis for securing conventional financing, since these subsidies are portable and lenders have no assurance that a dependable income stream will be available to carry a mortgage. Incidentally, similar problems arise in other elements of the HOPE program. As a basis for underwriting, rental assistance must be both project-based and at least 15 years in duration.
- Fifth, in many cases it will be unrealistic to expect to both (1) recapture HUD subsidies for ten years and (2) allow owners to benefit from equity appreciation during the same period. Many projects will require substantial rehabilitation – perhaps \$30,000 to \$50,000 or more per unit. Much of this housing is unlikely to appreciate in value by that amount within, say, a five or ten year ownership period. The unlikelihood that buyers will actually receive any appreciation would dampen marketability and make conventional mortgage financing difficult or impossible to obtain.
- Sixth, we are concerned that it will be difficult to balance the demand for planning/capacity building funds with implementation funds. It will be very difficult to anticipate how many projects receiving planning/capacity building support will actually be able to move into implementation. However, HUD will be asking residents and nonprofits to invest vast amounts of time, energy, and hope in the planning process. These groups must be able to reasonably expect that money will be available for implementation if their projects are feasible. Failure to provide implementation funds would be seen as a serious breach of faith by communities where unfulfilled government promises have

already made many residents cynical of government programs.

- Seventh, for all this effort, it is not clear that the HOPE program would produce true homeownership as it is generally conceived. For example, HOPE envisions using low-income housing tax credits to finance these projects. However, these credits must be used only for rental housing for at least 15 years. There is a big difference between homeownership and the possibility of homeownership 15 years in the future. In addition, as mentioned above, in many communities multifamily housing is not widely accepted for homeownership, and equity appreciation (given both market perceptions and subsidy recapture requirements) is unlikely to meet homebuyers' expectations.
- Finally, substantially the same benefits could be achieved much more simply through nonprofit community-based ownership of rental housing, in which resident participation is encouraged. This approach would be much simpler to structure, more stable financially, would build an ongoing local capacity to convert and develop housing for permanent low-income occupancy, and empower communities as well as individuals.

In summary, the best way to pursue this kind of program would be under HUD's discretionary authority as already proposed under the HOP. HUD would be able to undertake these activities on an experimental basis, test a variety of innovative program approaches, and would not be bound by statutory rigidity as program requirements need to be modified.

This concludes my testimony.



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Chairman

Senior Citizens Housing Committee
B'nai B'rith International

Presentation to the

Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and Urban Affairs
United States Senate

March 29, 1990

Testimony of

Nathan I. Nagler
Chairman

Senior Citizens Housing Committee
B'nai B'rith International

Mr. Chairman, my name is Nathan I. Nagler. I serve as President of the board of directors for Queens B'nai B'rith House, a 191-unit apartment building for the elderly funded under Section 202 of the Housing Act of 1959, as amended. Concurrently, I serve as Chairman of the B'nai B'rith Senior Citizens Housing Committee, a group of dedicated volunteers which oversees and directs the activities of the B'nai B'rith Senior housing network, nationwide.

I am honored to come before you this morning and express our thoughts and concerns, and share with you our experience as sponsors and operators of housing for the elderly.

B'nai B'rith sponsors 21 apartment buildings for the elderly across the country, and is negotiating with HUD on six additional properties that are in various stages of the HUD pipeline process. One of the largest national sponsors of subsidized housing for the elderly, our housing network provides almost 3500 apartments for approximately 4500 elderly citizens.

Four thousand five-hundred people. That sounds like a great achievement, and for a single organization, perhaps it is. But, in terms of answering the needs of the literally thousands of seniors who still require this type of assistance, it falls terribly short.

We do not create old age homes, or nursing homes. Rather, we view our role as an opportunity to offer elderly people with limited incomes--regardless of race or religion--quality housing in a community of their peers.

Since the inception of the Section 202 program, the Federal government has depended upon the non-profit community to share in the task of providing the sense of commitment and challenge in making quality housing available to low-income senior citizens.

We care! That is the only reason we are in this business. There are literally thousands of volunteers, like me, who regularly give of their time and energy so that we may provide for others. This represents an enormous resource of manpower that is only present in the non-profit sector.

However, without your support, Federal support, the non-profit community could not continue in this great endeavor. Providing affordable housing for the elderly requires

a long-term commitment of time and resources. We make that time. What we often lack are the financial resources. The remarkable advances that this country has made in accomplishing our housing goals would not have come about if it were not for the significant participation of the Federal government. For that we are grateful. However, the job is far from over.

We firmly and honestly believe that the demand for affordable housing for the elderly still far exceeds the supply!

Year after year, this fact comes before you in a myriad of reports, testimonies, and congressional studies. It has been most recently documented by the 1988 National Survey of Section 202 Housing for Elderly and Handicapped conducted by the University of Illinois and confirmed by our experience at our B'nai B'rith housing developments.

There are an average of eight persons on 202 waiting lists for every vacancy that turns up. But, waiting lists only represent those persons who chose to apply. They do not include those who were discouraged by the prospect of a long wait and chose not to apply. Many times, these are the people who may be most in need of affordable housing.

Sometimes a waiting list becomes "frozen" and no new names are added. Prospective applicants sometimes wait months or years, just to be able to have their name placed on a waiting list - at which time they may still be facing a wait of up to two years before an apartment becomes available.

And the Federal preferences only serve to exacerbate the problem. On October 26, 1989, Queens B'nai B'rith House completed its latest affirmative action marketing plan for applications. Ninety-one of the 182 applications received fulfilled the Federal preference regulations. As the building averages 10-12 vacancies a year, this translates to an eight to nine year wait for those with a federal preference and who knows how long for those seniors without preference.

With many of our residents "aging-in-place" and requiring more services, the older projects, that is, those funded prior to the 1983 "cost containment" guidelines, are those best equipped to handle their needs. As residents become more frail, they become more dependent upon their immediate surroundings for basic necessities and support systems. As services become more needed, available congregate spaces only facilitate the provision of these resources by appropriate community agencies.

One example of how cost containment policies are in direct conflict to the original intent of the Section 202 housing program and the needs of the residents for whom the building should be designed, is the elimination of elevators in two story buildings and the restriction of only one elevator in buildings under ten stories. The limitation placed on the residents by this requirement is obvious, and possibly dangerous.

We are now first paying the price for the years of cheap construction and skimming on the "amenities" that made the difference between quality housing for the elderly and simply providing shelter.

We believe the time has finally come for the recognition that something has to be done. The years of treating housing programs for the elderly as nothing more than a "safety net" has got to stop! We need to put the "dignity" back in the programs we provide.

B'nai B'rith believes that the National Affordable Act (S.566) goes a long way in recognizing the true needs of our elderly citizens and attempts to restore the Federal role in mobilizing the nation's resources to make decent housing affordable and available to all.

Specifically, we applaud your efforts to:

- Establish a clear national housing policy which promotes an effective public-private partnership between Federal, state and local governments and non-profit sponsors of housing for the elderly.
- Develop the Housing Opportunity Partnerships proposal (HOP) which will provide a flexible mechanism for increasing the supply of affordable housing in our communities.
- Reform the very successful Section 202 program to make it even more responsive to the needs of our aging residents.
- Replace the existing Section 202/8 program with a forgivable loan program with rental assistance.
- Permit financing of a support services coordinator as part of the project operating budget.
- Provide funds to "retrofit" existing developments to better accommodate the supportive services needs of aging residents, including access to replacement and reserve accounts to facilitate this process.

Recently, Secretary Kemp unveiled the Administration's HOPE initiative, "Homeownership and Opportunity for People Everywhere." While we can agree with the overriding theme of this very ambitious proposal, that is, to empower people to take control of their lives, their homes and their destinies, the program does not adequately address the issue of increasing the much needed supply of housing units in this country.

Providing residents with the means to take an active role in directing their lives and providing them a supportive, active environment goes a long way in allowing these

individuals to remain independent for a longer period of time and will prevent or forestall the potential of these individuals being housed in a skilled care facility. We provide that opportunity every day throughout the B'nai B'rith senior housing network.

HOPE speaks very well of providing home ownership, turning public housing into private ownership and addressing the supportive needs of our ever aging elderly population with 5-year service vouchers. Unfortunately, it does not address the fundamental problem of the lack of affordable housing that currently exists in this country. HOPE is certainly one way to go, but, it is only one answer to a very diverse and complicated problem.

We believe, Mr. Chairman, that the HOP plan, as outlined in S.566 more realistically addresses the need for this increased supply.

HOP recognizes and provides for the interaction of Federal, state and local involvement. By providing the flexibility to adapt to local community needs, we believe that with adequate resources we can begin to develop the supply of quality housing that will be able to address a multitude of problems.

The availability to develop mixed-use, mixed-income facilities under HOP has tremendous appeal to us. It has been demonstrated in the past and is proving true in today's market that housing the poorest segment of our society by themselves and segregating them from the mainstream of America, only serves to perpetuate the stigma of "projects," disenfranchises an already disadvantaged population and results in poor quality housing being constructed.

Nationally, our experience is showing that new applicants to our facilities are, for the most part, older, poorer, and less healthy than were the applicants we saw only five to seven years ago.

Under the past Administration, Section 202 has deteriorated into a "safety net" program, only available to the most poor, most needy individuals. With cost containment policies controlling construction creativity, projects of lesser and lesser quality have been the result.

Clearly, this thwarts the original goal of the program -- to provide quality housing for persons of low to moderate income to live out their years in independence and dignity.

We believe that mixed-income developments are financially and socially better not only for the residents, but for the sponsors, the community and for the Federal government. Beyond the significant social benefits that accrue from encouraging income integration, and at the same time discouraging an over concentration of the poor, this policy would permit reduced subsidy dollars spent per development and serve to spread subsidy dollars to programs in a wider geographic region. The result being more options available to lower income elderly in choosing where they would wish to live.

Also, by spreading the available subsidy around, we serve to provide entree to that next group of elders needing help, the 50-80 percent income group that have become caught between that proverbial "rock and a hard place," too poor for community "affordable" housing, but yet, too rich for federally assisted housing.

For example, in Queens, New York, occupancy is currently denied in our building to a single person with an annual income over \$11,850. Where does a 76-year old woman with a fixed income of \$12,000 find an apartment in this area?

Our files are filled with 70 and 80 year old men and women, who have worked all their lives, brought up families, helped build this nation and now cannot afford safe, decent housing who wait year after year on a list.

Consider a 65 year old widow with a total income, including Social Security of \$648.00 per month. Her rent is \$250 a month. This leaves \$398 a month to pay for food, electricity, telephone, medical and drug bills, etc. She can not qualify because she does not have a Federal preference.

A 77 year old couple, both recovering from serious illnesses have a total monthly income of \$742 and pay \$300 for rent. They have \$492 left over. An apartment in a 202/Section 8 building would cost them only a \$208 a month. That \$92 a month would make a major difference in their life.

Mr. Chairman, we have attempted to highlight in the preceding discussion, issues contained in S.566 that we believe to be of most concern to our general membership and what we believe to be in the best interest of the residents who live in B'nai Brith sponsored housing developments. We would like to now provide the Committee with specific comments and recommendations that we hope will be useful in the mark-up of S.566.

Title III - Investment In Affordable Housing
Subtitle A - Housing Opportunity Partnerships (HOP)

While our primary attention has been to the potential impact of S.566 on the Section 202 program as it relates to housing for the elderly, we have become aware that the prospect for the development of senior citizens housing may be far greater under Title III's Housing Opportunity Partnerships (HOP) proposal than through 202.

We understand that HOP would be administered by a new corporation established in HUD identified as the HOME Corporation, funded largely by HOME's purchase of HOP Investment Certificates issued by state and local agencies to implement their own housing strategies. States and local agencies would be required to invest in the program by matching Federal funds with 25 percent of their own funds.

Although the program as presently envisaged, would not be identified specifically for housing for the elderly, the states and local agencies would be free to use HOP funds

for such purposes if they choose to do so. We suggest that the HOP program be amended to require an allocation, perhaps equal to 10 percent of the HOP funds, to be dedicated to housing for the elderly -- both for the frail and for those still able to live independently.

Accordingly, while we strongly urge a significant expansion of the well-established and long successful 202 program, as discussed below, we also are encouraged by the possibility that HOP might develop into a new and major source of affordable housing for the elderly.

Title V - Housing for Persons with Special Needs

Subtitle A - Section 501 - Assistant Secretary for Supportive Housing

For several years, we have recommended that the special needs of the elderly would best be served by an Assistant Secretary for Elderly Housing at the Department of Housing and Urban Development (HUD). We think an Assistant Secretary for Housing for the Elderly would give the elderly a deservedly stronger voice in HUD than an Assistant Secretary for Supportive Housing, and provide far greater support than would a special assistant to the Office of Housing for elderly matters as proposed by Secretary Kemp.

We suggest that the strongest way to represent the interests of the older citizenry is to have the ear of the Secretary directly. We also would be afraid that issues related to the elderly would be watered down by the host of other problems an Assistant Secretary for Supportive Housing would have to deal with every day. However, we admit to the feeling that we speak as a voice in the wilderness on this issue since many of our colleagues concerned with housing for the elderly apparently think an Assistant Secretary for Supportive Housing is the best we can expect in this political climate.

Be assured that we do recognize that an Assistant Secretary for Supportive Housing as proposed in S.566 could be fully responsive to the elderly as well as to the handicapped and homeless. If time proves otherwise, we again would urge that an assistant secretary level position for elderly housing be established.

Subtitle B - Supportive Housing for the Elderly

Sec. 511 (a). Section 202(a) Purpose

With some exceptions, we continue to endorse the proposal for supportive housing in Section 511. However, we are concerned that the current emphasis on the frail elderly and "aging-in-place," tends to overlook the continuing need for housing for "independent living." Clarifying language should be included in Section 202(a) of Section 511 to assure that newly-funded Section 202 housing is also intended for those who can live fully independently, but who face the prospect of increasing frailty as the years pass by.

In spite of the overwhelming need for supportive housing, we must not ignore the need for significant increases in the supply of housing for "independent living."

Section 202(c) Forms of Assistance

As we have indicated in previous communications to the Committee, we are particularly pleased that Section 202 (c)(1) and (2) incorporate provisions for non-interest bearing, non-repayable capital advances as long as the housing remains available for very low income persons. We might suggest, however, that since you support the notion of mixed income occupancy, this section should be amended to keep the housing available for the specific population groups for which the program was originally intended, rather than to remain available only to persons with very low income.

Regarding Section 202 (c)(3), we recommend strongly that the resident's rent contribution be limited to the lowest, not the highest of either: 30 percent of adjusted monthly income; 20 percent of the gross monthly income; or, that portion of the welfare payment designated for shelter.

We also suggest that rent/income ratios for low income persons be reduced to not more than the 25 percent limit, the historically accepted rent/income ratio. At a minimum, we would recommend flexibility with regard to rent adjustments on units based on local marketing conditions such as lower rents (25% of income) for efficiency units.

Section 202(d) Term of Commitment

Given your efforts to encourage mixed-income housing, clarifying language is needed in Section 202(d)(1) to authorize occupancy by low and moderate income and market rate residents, as well as those with very low incomes. We agree, however, that preference should be given to the very low income group.

We continue to recommend that the Section 202(d)(2) be amended to provide a 40-year initial rental assistance contract. This change would be consistent with the use limitations in Section 202(d)(1) requiring all units to be available for occupancy for at least 40 years. In this way, we would assure long-term authorization for rental assistance and eliminate doubts as to its availability in future years.

Section 202(g)(1) and (2) Provision of Services and Application of Project Retrofit Requirements

For new applicants planning projects for independent living and not specifically for the frail elderly, the required submission on services should be limited to the applicant's intent and ability to provide funding for a wide range of services which might be needed in the future, but not identifiable at the application stage. This kind of information already is a Section 202 application requirement.

We think it would be both premature and wasteful to require the same detailed description of a service package for independent living as for a project for the frail elderly, as specified in Section 512(f) - Project Retrofit.

We agree that a range of services could be made available to elderly persons and to persons with disabilities who are not residents of the facility as provided in Section 202(g)(2). However, such participation could have an adverse effect on costs and could add significantly to the need for additional funds.

Therefore, an amendment is needed to provide reasonable federal funding for meals and supportive services to low income non-residents, with those not qualifying for subsidized services paying reasonable fees as specified in Section 512(f)(3).

Section 202(g) (3) Coordination of Services

Although a variety of Federal, state and philanthropic service supports are currently being made available at many housing developments, funding for a service coordinator has never been recognized as an eligible project cost. Thus, we are very pleased that the activities of such a coordinator would now be recognized as eligible under S.566.

We also urge that service coordinator costs be recognized as eligible costs in all HUD financed housing for the elderly, whether existing, in the pipeline, or selected for HUD funding.

Section 202(h) Matching Requirement

Of vital concern to B'nai B'rith and other non-profit sponsors is the proposal in Section 202(h) for a matching requirement of at least five percent of the proposed project's development cost from the applicant to assure the applicant's commitment to the housing, notwithstanding the provision that HUD would have the right to reduce or waive this requirement.

The Section 202 program currently requires Section 202 borrowers to contribute 1/2 of one percent of the loan amount, to a maximum of \$10,000, to be refunded at the end of three years if not needed to meet project costs.

A five percent contribution development cost would mean an added \$250,000 burden to an applicant for a 100-unit, \$5,000,000 project!! It is almost certain that B'nai B'rith could never have applied for, let alone have built, a single Section 202 housing project had this requirement been in effect previously.

Unfortunately, it would have been the lack of huge capital resources, not the capacity to develop and operate a senior housing facility successfully, that would have been the reason for our non-participation in the program. The same would apply, we think, to many of the other hundreds of successful Section 202 sponsors.

Accordingly, we again urge in the strongest possible manner, that the present 1/2 percent (\$10,000 maximum) applicant contribution requirement be retained and the five percent contribution be deleted.

Section 202(i) Development Cost Limitations and Sharing Cost Savings

We again applaud the inclusion of the provision in S.566 that properly provides for the establishment of development cost limitations by market area in Section 202(i)(1). Using market area cost limits should mean that Section 202 housing could be developed wherever the need exists and not be excluded from some communities because of unrealistic and arbitrary cost limits.

We also recommend the inclusion in the Act of the provision for incentives for savings in Section 202(i)(3) by permitting owners whose actual development costs are less than the published cost limits to retain 50 percent of the savings to supplement service or to be used for replacement reserves or other HUD-approved services; and for design flexibility in Section 202(i)(4).

As noted previously, although authority to use non-Federal funds for amenities not financed by HUD advances is specified in Section 202(i)(5), we urge that "non-Federal" be amended to "non-Section 202," to permit sponsors to seek funding for appropriate uses from the widest possible range of sources.

Section 202(l) Authorizations

Given the significant changes proposed for the Section 202 program under S.566, your decision to include provisions requiring HUD to apply these amendments to the "pipeline" -- that is loan reservations made prior to enactment of this Act on an owner's request -- will be very beneficial to the program and again we strongly support your action.

Recognizing that you have sought to reverse the trend of decreasing authorizations for the Section 202 program, we again request that you authorize at least 20,000 Section 202 units for the elderly annually under S.566.

With waiting lists of eight senior citizens for every unit that becomes available, it would be timely and humane to include such an authorization as was recommended by the 1980 White House Conference on the Aging.

Section 512 Project Retrofit

We are again pleased to include our endorsement of Project Retrofit. The availability of funding for retrofitting existing housing to enable frail elderly persons to delay or avoid institutionalization marks a major step forward in housing policy. We also are pleased that the need to improve management capacity relating to determining need for and availability of supportive services has been recognized.

However, we still are concerned that the proposal limits the Federal grants for supportive services (Section 512(c)(2) Transitional Support for Services) to a maximum of three years.

As before, we support seeking service funds from other sources, but HUD should not be put in the position of refusing to pay for needed services for residents of projects whose owners have sought funding from other sources in good faith, but simply have been unable to obtain the funds. In fact, many local, state or private agencies do not have the authority to provide long-term funding for as long as five years.

We believe the Federal government should be the agency of last resort to assure the uninterrupted funding of supportive services over the years.

We also suggest that while it is appropriate and necessary to provide grants for supportive services for non-profit sponsors and public housing, funding should be in the form of repayable loans for profit-motivated participants.

Section 512(c)(2) notes that transitional support for services could be provided through the renewal of contracts under the Congregate Housing Services Act of 1978. It is unfortunate that the congregate housing services program (CHSP) still serves only about 60 projects and 2,500 elderly or handicapped low-income persons, more than 10 years after its enactment.

Accordingly, we again recommend at least a fivefold expansion of CHSP on an annual basis for inclusion in S.566.

As noted previously, we wholeheartedly endorse and support the recognition and inclusion of Provision 512(c)(3) which provides for the employment of a Service Coordinator. We cannot underestimate the contribution that this individual will make to a comprehensive housing-with-services program for the elderly.

Our inability to provide for this function in the past has directly resulted in premature moves to institutional settings by residents who would have been able to remain living "independently" for a longer period of time if appropriate services could have been coordinated in the housing development.

It may be of interest to the Committee to note that one of the most valuable uses for retrofit funds proposed in S.566 will more than likely be for the installation of "frost-free" refrigerators in all Sec. 202/236 apartments. Historically, frost-free refrigerators have been disallowed under the guise of cost containment. Such a simple change as this may be an important link in the chain of maintaining independence for an arthritic elderly person. Unfortunately, too often such everyday conveniences are regarded as "frills" for those in subsidized housing!

Preservation of the Low Income Housing Stock

We want to assure you of our ongoing concern for the expansion and preservation of our low-income affordable housing stock. We suggest that while prepayments of

mortgages on Federally-subsidized projects might be acceptable, they should be accompanied by agreements that the projects will be retained as housing for low income occupancy for at least the original term of the mortgages.

Fraud and Favoritism in HUD

As were most sponsors of federally assisted housing programs, B'nai B'rith has been shaken by the charges of fraud and favoritism found to be rampant in many of HUD's programs. We applaud the recent and important legislative action taken to eradicate this mismanagement, but again join with you in seeking to prevent HUD's recent problems from becoming the basis for further cutbacks in housing or for ending the Federal responsibility for housing, or to be used as an excuse by Congress for not taking action on your innovative and much needed legislative initiatives.

In closing, we would like to suggest one further change in the proposed legislation that, while seemingly not a major issue, gains significance when we consider the day-to-day management of housing for the more frail elderly.

Currently, expenses for medical care and for handicapped assistance may be deducted from income in the calculation of rental subsidies. Our management professionals feel strongly that the cost of personal care and homemaker services, including grocery shopping and escort to medical appointments, should be deductible as well.

At the present time, if such services are provided to an elderly resident by a visiting nurse, they may be deducted as a medical expense, but, longer term services provided by a non-medical homemaker aide can not be deducted. It should be noted that such services provided by an aide to a handicapped non-elderly person can be deducted under the handicapped assistance provisions, however, the same services provided to an elderly resident crippled by arthritis may not. Such a change would provide equity to all residents of Section 202 housing and make a significant contribution to self-sustaining, self-supported independent living.

Mr. Chairman, B'nai B'rith genuinely applauds you and your Committee for accepting this bipartisan leadership role in forging a comprehensive reform of our federal housing policies. We recognize that our view is only one of many that your Committee must consider, but hope that we have provided a somewhat unique perspective.

Providing affordable housing for the elderly requires a long-term commitment of time and resources. The work of your Committee will demonstrate that while it does take dollars to make the programs work, a coordinated, comprehensive, sensitive approach to housing will result in assisting those who are in need while saving tax dollars in the end.

We hope that these comments and recommendations will be helpful as you proceed with the mark-up of S.566 and we look forward to providing any further assistance you may need in developing and strengthening these proposals.

Thank you.



Testimony by Amy Anthony
Secretary
Massachusetts Executive Office of Communities and Development
on behalf of the
Council of State Community Affairs Agencies
before the
Senate Subcommittee on Urban Affairs and Housing
March 29, 1990

Thank you, Mr. Chairman, for the opportunity to discuss the National Affordable Housing Act. My name is Amy Anthony, and I am Secretary of the Massachusetts Executive Office of Communities and Development. I am here today on behalf of the Council of State Community Affairs Agencies (COSCAA).

COSCAA represents 49 state agencies that administer numerous housing and development programs, including the Rental Rehabilitation program, the Emergency Shelter Grants program, the Section 8 Rental Assistance program, and the Community Development Block Grant program. To a greater extent, COSCAA members administer state-funded programs, an increasing percentage of which are housing programs.

With your permission Mr. Chairman, I would like to have this written testimony made part of the record.

The roundtable today was called to discuss H.R. 4245, Housing Opportunity for People Everywhere (HOPE). While we applaud the Administration's demonstrated commitment to housing, there are several aspects of their proposals which require close scrutiny and, in our view, modification. Our greatest concern is the role of states and localities. Under S.566, The National Affordable Housing Act, which COSCAA has supported strongly since its introduction in Congress a year ago, states and localities play an integral role in the housing delivery process. In contrast, H.R. 4245 tends to rely on states for provision of high match requirements but offers virtually no role for states as applicants or as policy or program decisionmakers.

State Role in Housing

In the past ten years, the number of states involved in housing has jumped dramatically and the type of programs states are developing have become more diverse and sophisticated. In the past three years, for example, Arizona, North Carolina, Vermont, Tennessee, New Hampshire, Ohio, Virginia, and Washington have for the first time become substantially involved in providing state funds for lower-income housing. Most recently, Illinois enacted landmark legislation that established a housing trust fund with revenues from the real estate transfer tax.



Due to states' increasing involvement with housing, we have well-defined ideas as to how federal housing legislation can work with state efforts for maximum impact. We see passage of a housing bill this year as absolutely critical, but we have specific concerns about the type of bill that will be enacted.

State Housing Principles

COSCAA recently articulated four basic housing principles that its state members believe should guide federal housing legislation: flexibility in the use of resources; sustaining true partnerships; responding to the need for production; and promoting mixed-income housing. These principles highlight states' needs to work with resources designed to permit their application to many different situations, rather than with categorical resources whose use may vary to the point of inapplicability in different areas.

Flexibility

Flexibility is important in terms of both allocation and administration of housing assistance resources, particularly in light of the diversity among states. Clearly the United States is not a unified housing market: housing problems, housing priorities, housing resources and the nature of housing delivery systems vary, sometimes substantially, among and within states. These variations emphasize not only the need for flexibility in allocation, but also the need for each governor's discretion in naming the state agency that would administer any housing programs. A single program with a single set of objectives cannot meet these varying needs and cannot respond to the different delivery systems that exist across the country.

For this reason, states consider the Housing Opportunities Partnership (HOP) program ideal for addressing the various state housing needs. We consider the diversity of eligible housing activities, the matching requirements, and the line of credit disbursement system as the most effective methods of mobilizing state abilities and resources. We firmly believe that the 50-50 split of HOP funds between states and localities acknowledges the state responsibility and capacity to provide both a leadership role and a comprehensive perspective on state housing needs.

For the same reasons that states find the HOP so attractive, many states would find it difficult to utilize some programs proposed under H.R. 4245, Secretary Kemp's HOPE initiatives. The categorical nature of the HOPE proposals, in addition to the fact that all participation is voluntary, may not attract widespread state interest. COSCAA would like to see more states involved in housing assistance, and believe flexible resources -- which can be structured around state priorities -- would encourage ever-



increasing involvement and resource dedication by states.

Therefore, while the HOPE proposals could be included as one element of a more comprehensive federal approach, they may not work well either as part of or as a freestanding state housing program, particularly for those states with little existing federally-assisted housing units. Similarly, many states would find it exceedingly difficult to funnel large amounts of resources solely through nonprofit housing agencies, as is proposed in H.R. 1180, under the Community Housing Partnership.

Partnership

A second state housing principle is the importance of partnerships, the necessity for which was brought home to states in the 1980s by the withdrawal of federal housing assistance. At a time when few resources are available to address such extensive problems as increasing homelessness, deterioration of the low-income housing stock, and housing affordability for first-time homebuyers, states have had to work closely with local governments, nonprofits, for-profits, and the federal government to design and utilize existing programs and resources -- such as the Low-Income Housing Tax Credit -- most effectively.

In this process, states have developed a comprehensive understanding of the resources and mechanisms for housing delivery that is invaluable for program success. For these reasons, we believe that effective federal housing policy must be premised on a true partnership role with states. S.566 consistently utilizes a partnership with states and localities in three key areas of the legislation: the HOP program; homelessness assistance; and prepayment of mortgages on federally-assisted projects.

HOP Program

Under the HOP program, states will be required to meet reasonable match requirements -- which can be phased in for those states which may not immediately have the required resources -- but can then work within flexible guidelines to meet identified needs. Incorporation of an extensive role for states and localities would increase accountability and help prevent abuses. A national policy that requires states and local governments to be involved in decisionmaking and put their own resources into housing strengthens program oversight and integrity. Increasing the management responsibility of states and localities can help ensure that funds benefit those whom Congress intends to benefit most effectively. This state and local responsibility -- within clear federal guidelines -- coupled with the variety of housing activities permitted, establishes a clear partnership of both federal and state resources and administration.



COSCAA members would make one recommendation with regard to the partnership role of states under the HOP program. While we believe that the setasides of HOP funds for nonprofits are generally reasonable, we would ask that you consider the following amendment to the nonprofits' setaside under HOP:

Under proposed legislation, states and locals must set aside 10 percent (rising to 15 percent in the third year) of their HOP funds for nonprofits. Any funds not utilized within 18 months faces one of two fates:

- (i) if the jurisdiction can prove that it tried to allocate the funds to nonprofit agencies, but could not, then it may use 50 percent of the funds as it wishes; the remainder of the funds are allocated among other nonprofits, with preference to the nonprofits within the jurisdiction.
- (ii) if the jurisdiction cannot prove that it made a good faith effort to allocate the funds to nonprofits, then all of the funds are recaptured from the jurisdiction's line of credit and made available to nonprofits, with preference to nonprofits within the jurisdiction.

Our proposal is that under the first circumstance, the 50 percent of funds that were to be allocated among other nonprofits be returned to the jurisdiction for the express purpose of capacity building for nonprofits. We believe this is a more productive option than recapture and will help to ensure that eventually states and localities will be able to work successfully with nonprofits in housing development.

Homelessness Assistance

The second area of partnership is in the formula-granting of funds for four McKinney housing programs -- Emergency Shelter Grants (ESG); Transitional Housing; Permanent Housing for the Handicapped Homeless; and Supplemental Assistance for Facilities to Assist the Homeless (SAFAH). States' abilities to address homelessness have grown tremendously in the past few years, as states have both implemented federal programs and have developed new programs for homelessness assistance. State programs attack homelessness in several different ways, including coordinating social services with shelter assistance, providing intensive community-based care for mentally disabled persons, and utilizing rental assistance for homelessness prevention. To detail the role of states in homelessness assistance -- including the questions and central issues they are dealing with as they attempt to approach homelessness in a more effective way -- I include as part of my written testimony a COSCAA report States and Homelessness: A Preliminary Policy Dialogue for the 1990s



based on a roundtable seminar held by COSCAA in July 1989.

While COSCAA would prefer to see homelessness funds split evenly between states and localities (rather than having 70 percent allocated to localities and 30 percent allocated to states as is now proposed in S.566) our first priority is to have the funds formula-granted. Under a formula-grant, states and localities will be able to develop more effective and comprehensive strategies to address homelessness based on receipt of a set amount of dollars for that purpose. For effective planning and resource utilization, it is critical that homelessness assistance be allocated in some way other than through national competitions, as they are now. Under current homelessness program administration, states expend a tremendous amount of effort for very little -- and very uncertain -- return.

Our one concern with S.566 in this area is the fact that it retains several of the programmatic elements that states believe inhibit successful policy approaches. Our two major concerns are the proposed 30 percent cap on prevention activities under the ESG program and the eight-person residency limitation under the Permanent Housing program.

1. Limitation on Prevention

Under current regulations and statute, states and localities are limited to using 20 percent of ESG funds for homelessness prevention activities, a percentage that is increased to 30 percent under the proposals in S.566. Given that many states are finding that prevention may be the most effective way to address homelessness -- it both eliminates the extreme emotional and psychological damage that persons and families may suffer in even a short bout of homelessness and typically is much less expensive than extracting persons and families from homelessness -- we recommend that no limitation be placed on usage of McKinney housing homelessness funds for prevention.

2. Eight-Person Residency Limitation

The eight-person limitation is similarly restrictive. Under current Permanent Housing program regulations and statute, no more than eight homeless persons may be assisted within one project: if the project consists of dwelling units within a rental building, a condominium or cooperative, the project may serve eight homeless persons and their families; if the project is a group home, it may serve only eight individuals and not their families. No more than one group home may be located on one site, and two sites -- each containing one group home -- may not adjoin one another.

While we applaud the reasoning behind the limitation -- the concern that mentally-disabled persons not be "warehoused" in



individual projects -- we believe that project integration into the community and individualized attention can be provided in larger projects. We recommend that the overall project limitation be raised to 16 and that HUD retain its current waiver authority. As another option, we recommend limiting the number of homeless handicapped persons within a larger rental complex to some percentage of that complex -- possibly 20 percent. The overall goal of the residency restriction is integration of the project into the community, and we believe that integration can be achieved by more proactive means than limiting occupancy.

By contrast to S.566's formula-based approach, H.R. 4245 retains all programs in HUD and concentrates the bulk of its assistance on mentally- and physically-disabled homeless persons, including substance abusers. While COSCAA realizes the need to address these severe problems, we are uncomfortable with this narrow approach. State experience has indicated the importance of addressing homelessness in a comprehensive manner, providing ways for persons and families to escape homelessness or avoid it altogether. Given the scarcity of resources, it is our inclination to utilize resources as effectively and in as complementary ways as possible, attacking homelessness in a broad-based, coordinated manner, rather than focusing on one group at a time.

Prepayment

The third area where a strong partnership is developed in S.566 is in dealing with projects susceptible to prepayment of federally-assisted contracts. We fully support the concept of utilizing state agencies as moderators in the process of retaining threatened properties as part of the low- and moderate-income housing stock. While states strongly believe that the bulk of the financial resources to address this problem must come from the federal government, we see states as key to effective resource utilization and are very interested in playing a mediating role between the federal government and individual project owners. I would like to have included as part of my testimony on this issue a report that Massachusetts and several other Northeastern states prepared on the prepayment issue, Northeast States' Proposal on Federal Incentives Needed to Preserve Assisted Housing.

Housing Production

A third state housing principle is the urgent need for production, particularly of rental housing. Through the HOP program, S.566 allows states and localities to address their production needs by pursuing either rehabilitation or new construction. Under the HOP, states could utilize any federally-assisted properties available, or could move aggressively on production of affordable housing in areas where markets are tight



and increasing numbers of low- and even moderate-income persons are unable to obtain housing.

As these points indicate, states must have the ability to use federal resources to produce housing. It is in large part this lack of housing production that concerns states about H.R. 4245. While we recognize that in many parts of the country there may be extensive inventories of distressed federal housing, and we can readily believe that the federal financial resources proposed in the bill may be absorbed fully by those federal properties, we must emphasize two points.

First, in many parts of the country -- including much of the Northeast -- there simply is not sufficient housing, either in standard condition or appropriate for rehabilitation. This is clearly reflected in low vacancy rates, and exists even for highcost housing, not to mention affordable housing. Second, in many cases existing housing in need of rehabilitation may be located in very depressed areas, far from services or transportation. Therefore, COSCAA is concerned that many parts of the country will be unable to use federal housing assistance as it is proposed under H.R. 4245. We believe that the programs do not represent the long-term, comprehensive approach to state housing needs embodied in S.566.

Mixed-Income Housing

A fourth principle is the importance of mixed-income housing. History has taught us that problems and disinvestment are often the result when large numbers of low-income people are isolated in large public housing developments. In Massachusetts and many other states, mixed-income housing has a strong track record of providing vital and enriching living environments for low- and moderate-income people. This principle is integrally related to the issue of production in that much of the federally-assisted housing stock that may be available for rehabilitation is grouped in large projects, which often are located far from services or transportation. It will be difficult to attract moderate-income professionals to even the most well-rehabilitated units if those units are not located close to jobs, services and other amenities.

While it is important to permit development of mixed-income projects, it is equally important to site those projects within mixed-income neighborhoods. COSCAA members are concerned that H.R. 4245's emphasis on the use of federally-assisted units will preclude not only mixed-income projects but mixed-neighborhoods as well.

Therefore, if housing resources are concentrated on rehabilitation of housing, and states and localities find it difficult to promote mixed-income occupancy within these



developments or to make these developments part of a mixed-income neighborhood, their renovation may very well mean concentration of low-income persons within one area, and the cycle of despair and poverty could begin all over again. This is one reason underlying COSCAA's concerns with the large-scale renovation and conversion of public housing units to tenant homeownership that is proposed under H.R. 4245.

Homeownership and Tenant Empowerment

While COSCAA believes that low-income persons may benefit from becoming homeowners, we also recognize that homeownership involves extensive responsibilities and should not be entered into lightly. COSCAA believes that S.566 takes a comprehensive approach to assisting public housing tenants through providing not only homeownership assistance (a proposal which eschews ongoing rental assistance but would allow PHAs to provide operating cost assistance to homeownership projects) but also assisting public housing residents with coordinated services and housing through Project Independence. In short, S.566 does not approach the problems faced by public housing tenants through one proposal -- homeownership -- but brings together ongoing public housing subsidies, reform, housing-services linkage and homeownership.

Within H.R. 4245, however, the primary vehicle for public housing tenant assistance is homeownership, an approach COSCAA believes is problematic. The most critical issue has to do with the fact that low-income persons may be unable to support ongoing costs of homeownership and that many of the public housing units in this country are in severe states of disrepair. We are concerned that the amount of funds HUD proposes to set aside for rehabilitation will be insufficient, with the result that funds will either be spread too thinly or will not cover as many units as may now be anticipated. If funds are spread too thinly and rehabilitation not as thorough as it should be, low-income persons may find themselves saddled with unexpected and extensive repair costs.

This raises two additional concerns. First, that the scope of assistance required to renovate units to the point at which low-income persons can support maintenance costs may not be fully realized. Second, and more alarming is that the proposals seem to anticipate that low-income, first-time homebuyers will be able to support costs that the federal government has avoided for the past ten years.

These issues raise the specter of sole state and local responsibility for maintaining low-income "homeowners" and supporting the maintenance needs of their units without being able to utilize the public housing units as a permanent low-income housing resource. COSCAA believes it is inappropriate for states to be required to assume the federal responsibility for



public housing through provision of post-sale subsidies to "homeowners" when the proposed legislation in H.R. 4245 suggests that the "homeowners" may in fact be perpetually receiving some form of subsidy. This appears to us to be an attempt at shifting the burden of financial responsibility from the federal government to the states via a meretricious proposal for "homeownership."

As a final point, we reemphasize our two principles of the need for production and mixed-income housing, both of which would alleviate the concentration of low-income persons in a geographically-confined area. In short, we believe that more genuine forms of homeownership can be pursued more effectively through individual state programs than through mass conversion and sale of public housing units. Related to this, we believe that the en masse loss of public housing units to private individuals would eliminate one of the most important functions of public housing: that of transitioning low-income persons out of poverty and into unassisted housing.

Finally, if the real effort is to empower tenants as Secretary Kemp suggests, COSCAA recognizes that tenants can be empowered in ways that are as effective and less problematic than immediate homeownership, such as through management responsibilities and formation of tenant councils.

Rental Rehabilitation Program

One element that we believe could be added to S.566 to strengthen its comprehensive approach to federal housing assistance is the permanent extension of state authority to utilize Rental Rehabilitation funds in rural areas. Under current law, states may allocate prior-year unused Rental Rehabilitation funds to Title V-eligible areas through September 1991. The provision was first authorized as a demonstration in the Housing and Community Development Act of 1987 and was reauthorized for an additional two years in H.R. 2916, the HUD appropriations bill for fiscal year 1990.

States were given the demonstration to see how well it worked and what level of need existed. The fact that need was demonstrated and that most states have been able to commit funds even within the limited time-frames for the first demonstration (a two-year demonstration that effectively was in operation for one year only) is strong justification for making permanent the state authority to allocate Rental Rehabilitation funds in rural areas.

While their chief concern is having the demonstration made permanent, COSCAA members also would like to see some programmatic changes, including permitting the use of current year funds in rural areas, rather than solely prior-year funds



and modifying the approach to neighborhood selection. Currently, Rental Rehabilitation funds may be used in "neighborhoods where the median income does not exceed 80 percent of the median income for the area." The problem is that in rural areas, settlement patterns are more dispersed and census data on income and race are provided only at the block group level. Block groups may represent such a broad area -- incorporating a large number and wide range of persons -- that the "pockets" of poverty within the area are not identifiable.

There are two approaches to this problem. First, if the program were made permanent, states would be justified in investing resources in surveys of specific areas. A second, programmatic approach is to base project selection on project tenant income, rent affordability, surrounding rental market and household income, and the local authority's opinion of the neighborhood, rather than on neighborhood eligibility strictly in relation to area income.

A third programmatic change would be the recoupling of Section 8 assistance with the Rental Rehabilitation program. This re-coupling is particularly important in rural areas for two reasons. First, rural areas receive very little rental assistance to begin with, so their overall pool of assistance is much smaller than that in urban areas, even relative to demand. Second, the rental assistance available for Rental Rehabilitation projects typically is turnover assistance, available only as an assisted tenant relinquishes his voucher or certificate.

While this is an unpredictable source of assistance to begin with, the problem is exacerbated by the fact that the actual rate of turnover in rural areas is much lower than in urban areas. These problems preclude rehabilitation of occupied units: since Section 8 assistance is frequently used to relocate families while rehabilitation is conducted, the lack of rental assistance means that in many cases owners can rehabilitate only vacant units, forcing families to move to obtain good housing.

A fourth issue is wage rate determinations. Under current regulations, HUD requires a project-specific Davis-Bacon wage determination which must be completed by Headquarters and may take six to eight weeks to complete, a delay which may seriously jeopardize project feasibility. HUD should be able to provide a city/community/county-wide Davis Bacon wage determination that is issued for the first request made for an area. A wage determination should be effective for six to 12 months and apply to any subsequent projects in the area during this time period. The wage determination could be reviewed and revised, but subsequent projects should not be delayed while an entirely new determination is made.



Community Development Block Grant Program

Last November the Administration proposed a fundamental alteration of the Community Development Block Grant Program. While COSCAA is sympathetic to the goals of the Administration, we think its proposals will be deleterious to the program. We do recognize that some changes could be made to assist low- and moderate-income persons and make three recommendations to that end.

COSCAA's first CDBG recommendation is to give states the option of requiring that program income be returned to the states. Under current law a locality can keep program income if it promises to use program income for the "same activity" as the CDBG grant. Nearly all program income occurs from the repayment of loans to for-profit businesses for job creation or retention, and the same activity is usually defined as job creation or retention. Since states allocate about 20 percent of CDBG funds as loans to businesses, this is a substantial amount of money. Unfortunately, after close-out of a grant, which usually occurs two years after grant award, program income is treated as "miscellaneous income"; a locality can use program income as it sees fit. Thus, program income loses its CDBG "flavor," that is, funds can be used for purposes other than those that meet the statutory national objectives of the CDBG Program.

Permitting states to keep program income would ensure that these funds are always used for an eligible activity and for a national objective. Since states fund nearly all CDBG grants under the national objective of benefitting low- and moderate-income persons, permitting states to require that program income be returned and recycled as CDBG funds would substantially increase the assistance CDBG provides to low- and moderate-income persons. There are other sound reasons for making this change, and COSCAA will provide more detail directly to subcommittee staff.

The second CDBG change that COSCAA supports is altering the current 15 percent cap on social services in the state-administered program from a 15 percent cap on each state recipient to a 15 percent cap statewide. States generally fund very small localities with single-activity grants in the \$200,000 to \$500,000 range. It is unlikely, and indeed impractical, for a small locality to try to use 15 percent or less of this amount for a social service activity. Yet, social service activities are often very beneficial to low- and moderate-income persons. Changing the cap to a statewide cap would permit nonentitlement localities to make a substantial contribution to low- and moderate-income persons by funding a social service activity at meaningful level.



Finally, COSCAA recommends that localities be permitted to provide loans to for-profit businesses for purposes of providing skills training, particularly on the job training, for low- and moderate-income employees. Now, state grants for this purpose must meet HUD's "necessary and appropriate" test, which makes it unlikely that these activities can qualify. Yet the skills training directly benefits low- and moderate-income employees, who can take their new skills to other employment opportunities. This is very different than funding a business for fixed assets or operating capital. Assistant Secretary Kondratas is sympathetic to this view and believes HUD can work out this issue administratively. However, statutory language, or even report language, would ensure this beneficial change.

HAC

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STATEMENT OF

EVA M. CLAYTON
CHAIR, BOARD OF DIRECTORS

THE HOUSING ASSISTANCE COUNCIL, INC.

Before The

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Subcommittee on

HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

March 29, 1990

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Mr. Chairman, Members of the Committee, My name is Eva Clayton and I thank you very much for inviting the Housing Assistance Council to appear and testify on S. 566, the National Affordable Housing Act. My comments will be directed toward the rural portions of that bill and other rural housing matters before the subcommittee, particularly S. 1371 introduced by Senator Sanford, and as I understand, incorporated into the Bill you are now considering.

The Housing Assistance Council (HAC) is a national nonprofit corporation supporting the development of rural low- and moderate-income housing nationwide. For 19 years HAC has been providing technical housing services, seed money loans from a revolving fund, housing program and policy analysis, training and information services to local and State governments, nonprofit and private organizations involved in the production of housing in rural and small town America. This has given us, we believe, a grasp of both the housing need in rural America and the policies, programs and funding necessary to meet that need. It has also given us a very real sense of what works and what does not work among various housing programs, and to some extent, why.

I lived and serve as a Commissioner in rural Warren County, North Carolina, where the housing needs and percentage of poverty have a high correlation; 19 percent substandard housing with more than 25 percent of residents consider poor.

Let me first talk briefly about the Administration's budget request. The Housing Assistance Council is disappointed in the President's budget proposal for Farmers Home Administration. Our analysis indicates that its enactment would result in deep cuts in service to the rural poor. For example:

- o There are 14,088 fewer directly financed Section 502 units (home-ownership) than for FY 1990, even after the Gramm/Rudman/Hollings cuts. This is a 57.2% cut.

- o Loan guarantees for 13,130 Section 502 units (6,460 with subsidized interest rates) are added, but it is very doubtful that this program will work.

- o The total number of subsidized units constructed, purchased, and/or rehabilitated is reduced by 15,423 from FY 1990. If the guarantee program does not work, the reduction would go as high as 21,883.

- o Half (50.8%) of the proposed Section 502 guaranteed loans are unsubsidized, i.e. market rate, loans. This is a distinct departure from current, and long-term efforts to maximize targeting of FmHA housing resources to those most in need. Further, since FmHA plans to subsidize interest rates down to an average of 5%, rather than the current average of about 3%, even that part of the guarantee program will assist households with higher incomes than those presently reached.

o The Section 515 multi-family program which serves very poor households, has been cut by 31.6%.

o Rural Rental Assistance, home repair loans and grants, and the Housing Preservation Grant program have all been reduced, though this is offset by 8,000 rural housing vouchers.

o The budget proposal eliminates the mutual self-help housing program, the site loans in Sections 523 and 524, as well as the compensation for construction defects.

Overall the budget speaks to reducing risks, increasing the downpayment requirements, and limiting guarantees. The implications seem clear. FmHA, by Congressional direction, the rural lender of last resort, will take fewer risks and serve rural households with higher incomes.

The chart below shows the FY 1990 appropriation levels; the Administration's FY 1991 request; the authorization levels set forth in S.1371 and S. 566; and, the authorization levels that HAC believes are both necessary and realistic.

We urgently request the Committee to reject the Administration's request for the legislative changes to implement its proposals, and to continue your support for the demonstrably workable programs of FmHA. The figures we suggest are eminently reasonable, even in today's budgetary climate.

FY 1991 Budget Comparison
(Dollars in Millions Rounded)

<u>Program</u>	<u>1990 Levels*</u>	<u>1991 Budget</u>	<u>S. 1371</u>	<u>HAC Recommendation</u>
Sec. 502 Subsidized	\$1,260.8	\$ 577	\$1,328.7	\$ 1,500
Sec. 502 Subsidized Guaranteed	0	297		0
Sec. 502 Unsubsidized	50	32	0	30
Sec. 502 Unsubsidized Guaranteed	0	297	0	0
Sec. 504 Loans	11.2	11.1	12.3	15
Sec. 504 Grants	12.5	10	13.6	25
Sec. 509(c) Compensation	0.5	0	0.5	0.5
Sec. 514 Loans	11.3	16.3	12.5	20
Sec. 515 Loans	571.9	391	715.6	770
Sec. 516 Grants	10.9	10	24.9	25
Sec. 521 R.A.P.	296.3	269.8	351.6	453.6
Sec. 523 T.A. Grants	8.6	0	8.7	10.5
Sec. 523 Site Loans	0.5	0	0.5	1
Sec. 524 S. Loans	0.6	0	.6	1
Sec. 533 Grants	19.1	15	44.9	45
Rural Hsg. Vouchers	0	189.9	0	0
Totals:	\$2,254.2	\$2,126.1	\$2,514.4	\$2,896.6

*After GRH

The HOPE Program

It is encouraging that the Bush Administration has undertaken a housing initiative. However it does little to increase affordable housing units for the poor and is not sensitive to the needs of rural residents. Therefore it is a disappointment.

I cannot point to anything HAC opposes in the Bill. We favor homeownership. We think tenant management would improve many housing projects. There is nothing wrong with enterprise zones or housing opportunity zones. The low-income housing tax credit is an expensive method of subsidizing low-income housing, but if it is available it should be used. Nor is there anything wrong with housing IRAs, or the basic idea behind operation bootstrap.

It is what HOPE fails to propose that we find troubling. There is no serious effort to increase the supply of affordable housing. And without an increase in the low-income housing stock, all we seem to be doing is moving low-income families around among a variety of existing housing units. And there are not enough units to begin with.

In 1970 there were 500,000 more units of affordable housing in rural America than there were families with annual incomes under \$10,000. In 1985, the situation was just reversed - there were 500,000 more low-income families than there were affordable housing units in rural America. Nothing in the proposed HOPE legislation addresses that disparity.

Selling public housing units to tenants, as valuable as this may be to limited individuals will not increase the stock. Housing Opportunity Zones are clearly intended for urban areas. I venture to suggest that most families with an income below \$10,000 do not have an IRA account. Even the low-income housing tax credit is proposed for but a single year extension. That doesn't give developers much confidence that it will be available when they need it. (They tend to remember the 1986 tax changes all too well.) In short, there is no construction program. If we are to address the housing problem of low-income families in the United States, particularly in rural areas, we must produce more affordable housing.

In the short term, a modest subsidy to private builders and developers which will induce them to build units at \$50.00 a square foot, rather than building for the more affluent market at \$150 a foot may be necessary. With adequate HUD/FmHA supervision it need not become another scandal.

But in the long run, as HAC has said before, a capacity building grant program for rural communities is the best answer. Where such groups exist, they know the problem, but lack both the

necessary expertise and financing to carry out the kinds of housing development programs necessary in so many small communities. In other areas such groups must be created. They will all have a vested interest in the community and see the projects as community improvement, not just a balance sheet.

Both these elements must be added if HOPE is to be meaningful in rural areas.

S.566 The Affordable Housing Act

The Housing Assistance Council has testified at length on the rural provisions of S.566, and I do not want to repeat all of that. There are several items however which should be emphasized.

Section 703 on the deferred payment program can be a very beneficial amendment. We do urge, however that a deferral of up to 50% of the principal be permitted, rather than the 20% now in the bill. Such a deferral would reduce the income level necessary to qualify for a 502 loan by as much as 23%. The 20% deferral would reduce that income level by only 9%.

The underserved areas provisions in Section 704 have already spurred FmHA to administratively adopt a somewhat similar program for the poorest rural counties in the country. Neither it nor Section 704 however, has the element which is most needed to bring housing development to rural areas -- a capacity building grant program. The Project Preparation Assistance provision in Section 704(5) is clearly a step in that direction, and we are very pleased to see it incorporated into the bill. But in addition to that there needs to be a program of relatively long term administrative funding assistance to rural nonprofits and local governments which could then develop the local capacity to deal with their housing needs.

Section 706 would permit nonprofits, as well as public bodies, to use FmHA single family inventory property for 515 multifamily projects in certain circumstances; and, Section 707 will permit the use of Section 515 appropriated funds until expended. HAC supports both of these amendments and we suggest a further Section 515 amendment.

We urge the Committee to make the authorization for the multi-family program and the self-help housing program, permanent. Both programs have demonstrated their worth over the past years, and clearly their survival, over the lean years of housing retrenchment, has demonstrated support throughout the Congress. The biennial reauthorization is surely no longer necessary.

Other Housing Initiatives

Mr. Chairman, we ask once again that the Congress clarify the law with regard to FmHA lending on Indian Lands. The National American Indian Housing Council has supplied language which insures that FmHA rural housing loans would not lead to alienation of tribal or trust lands. We urge you to consider the Council's amendment.

Finally, Mr. Chairman, HAC asks the Committee to seriously consider a new migrant farmlabor housing shelter program. I will describe it briefly here, and ask that the longer paper describing a new migrant shelter program be made a part of the record. We have circulated the paper to several dozen state government and private nonprofit migrant service agencies for their comment and expect to have substantive responses by the end of April. We will of course pass them on to the Committee.

Briefly stated, the program contemplates a census of farmworkers, designed by the Bureau of Census, but conducted by any of the state migrant agencies which agree to undertake the actual count. Each state desiring to participate in the migrant shelter program would be asked to develop an outline of agricultural crops within the state which utilizes migrant labor, describing at a minimum, the crop to be harvested, the normal month(s) when migrants are utilized for either harvest or cultivation, by location within the state and county. The actual count would then be undertaken, throughout the growing season, as the number of workers peaked, county by county.

The count would incorporate the collection of basic demographic data on the farmworkers, and most importantly, information about their current and permanent residence. Finally the census would count every habitable housing unit available to migrant farmworkers within the immediate harvest area. The result of the census would be an accurate count of migrant farmlaborers, county by county, by time of year, along with the numbers of habitable housing units available for farmworkers.

With the data then available to the States, each would be asked to develop a plan for providing migrant shelters in those areas of the state suffering a shortage, including development and construction or acquisition cost, along with a suggested local management agent for both harvest use and off-season maintenance. The Federal government would agree to pay for 100 percent of the development and construction cost less land and infrastructure, and up to 75% of the year around management costs incurred by the local managing agent. Neither of these payments would come from existing farmlabor housing programs, or indeed from any existing program. It would be new and separate.

The costs of commencing such a program as a demonstration would be modest, and the information gained would be invaluable

at such time as a full-scale program might be undertaken --the one suggested here, or any other modified as the demonstration might indicate.

HAC's estimate of the cost of such a demonstration, conducted in four states, and building 1000 units on a minimum of ten separate sites, would be about \$30 million. \$5 million the first year to commence the census; \$10 million in years two and three to complete the census and commence the construction; and, \$5 million in year four to complete the construction and commence the maintenance contracts with the local management agents.

If state and local governments prove receptive to such a program, it is our estimate that it would cost no more than \$250 million annually to build and operate 15,000 shelters.

Mr. Chairman, that ends my statement, but again I want to thank you and the Committee for inviting HAC to testify.

**Presentation for the HOPE Initiative Roundtable
Before the Senate Committee on Banking, Housing and Urban Affairs,
Subcommittee on Housing and Urban Affairs**

By Mark Hendrickson

Executive Director,

**Florida Housing Finance Agency on behalf of the
National Council of State Housing Agencies**

March 29, 1990

During the last decade, states have played a prominent role in the design and delivery of affordable housing programs. The 58 State Housing Finance Agencies (State HFAs), operating in every state, have been at the forefront of this effort. Active for more than two decades, the State HFAs currently administer more than 350 affordable housing programs ranging from homeownership to homeless initiatives.

The 58 State HFAs are members of the National Council of State Housing Agencies (NCSHA), a national, not-for-profit organization created in 1970 to represent the interests of State HFAs in low and moderate income housing before Congress and the Administration. I join this roundtable discussion this morning on behalf of the Florida Housing Finance Agency and all of NCSHA's member agencies.

We want to make four points concerning the National Affordable Housing Act, S. 566 and the Administration's HOPE proposal:

- S. 566 is a comprehensive approach which calls for needed new funding to respond to growing housing problems. HOPE is very narrowly focused and promises little new money for housing.
- S. 566 will produce new affordable housing units while HOPE will do little to expand this shrinking stock and may even result in its further depletion.
- S. 566 recognizes the capacity and potential of states and localities as housing deliverers and gives them broad latitude to respond to their unique housing concerns. HOPE offers no role for state and local governments.
- The goals of HOPE and much more can be accomplished through S. 566's HOME Corporation and its HOP funds.

State HFAs are major players in today's housing delivery system. Collectively, State HFAs have issued more than \$26 billion of tax-exempt bonds, the proceeds of which have financed 665,000 units of low-income rental housing across the nation. Another 236,000 low-income rental units have been added to this inventory since 1987 through the use of the Low-Income Housing Tax Credit (the Credit), which State HFAs allocate in 47 states. In addition, State HFAs have financed more than 1.1 million home mortgages for first-time, low and moderate income homebuyers using \$60 billion in tax-exempt bond financing.

In Florida, my agency has made a significant contribution to affordable housing finance during its first ten years of operation. More than 150,000 Floridians now live in housing financed under Florida HFA programs. The agency has financed \$960 million in mortgages for over 18,000 low and moderate income first-time homebuyers, and has financed over \$1.3 billion in loans to developers for the construction and rehabilitation of over 32,000 rental units. Another 13,000 units of low-cost rental housing have been created through the agency's use of the Low-Income Housing Tax Credit. Florida has also partnered with the federal government in providing affordable housing by funding with state dollars rental construction and rehabilitation loan programs, and down payment assistance to low-income first-time homebuyers. An inventory of model State HFA rental, homeownership and special needs programs operating in Florida and across the country is included as an appendix to this testimony.

State HFAs are firmly committed to the enactment of S. 566, having participated in its formulation since the organization of the National Housing Task Force in 1987. My colleague, Terrence Duvernay, Executive Director of the Michigan Housing Authority, was privileged to serve on the task force. Aware of the pressing housing need and the vital importance of producing a consensus plan, this very diverse group of housing professionals unanimously proposed a comprehensive housing policy in its March, 1988 report, "A Decent Place to Live."

The centerpiece of the Task Force's report was the Housing Opportunities Program (HOP) which later became the heart of the Senate bill, S. 566. Since its introduction last May, this legislation has been actively and thoughtfully debated within this Committee. It has been examined, refined and expanded.

Numerous interest groups representing state and local government, non-profits and the private sector have come before this Committee to endorse the HOP program, including NCSHA. HOP is the keystone of this exciting new approach to national housing policy. Without HOP, we have just another housing reauthorization bill and not a new and positive direction in housing.

Recently, the Administration introduced its HOPE -- Housing Opportunity for People Everywhere -- proposal into this national housing policy discussion. Although HOPE falls short in some important areas, it contains creative ideas which deserve serious consideration. The flexible HOP framework can accommodate these ideas but must not be supplanted by them.

We are confident that landmark, comprehensive, consensus legislation can emerge from this debate and be enacted this year. We urge the Committee, however, not to depart from the fundamental precepts first outlined by the Task Force and boldly reflected in S. 566. A new national housing program must:

- Expand the supply of affordable housing;
- Build a nationwide, decentralized network of partnerships;
- Allow state and local flexibility and innovation within comprehensive housing strategies;
- Replicate model programs and refine Section 8 Certificates, Vouchers, Section 202, supportive housing and McKinney homeless programs;
- Preserve federally assisted low-income housing.

Expand the Supply of Affordable Housing

The legislation Congress passes this year must adequately respond to our nation's growing housing problems. More than 4 million families currently live in substandard housing or pay more than 50 percent of their income for rent. We stand to lose roughly 175,000 low-cost housing units per year to conversion, deterioration and abandonment through the year 2000. Owners of another 243,000 units are likely to prepay their assisted mortgages and convert these units to market rate use over the next decade. As units are lost from the affordable housing inventory, the number of low-income families in need of affordable housing grows.

To meet pressing affordable housing needs, a significant increase in the affordable housing supply through new construction, rehabilitation, preservation and acquisition of existing stock is required. To respond to this need, the National Affordable Housing Act calls for a major new production program, the \$3 billion Housing Opportunity Partnerships (HOP) program.

The Administration's HOPE program relies solely on the stock of existing housing to meet affordable housing needs. HOPE grants would be made to tenant associations and non-profit organizations to develop and implement tenant homeownership programs in public housing, government-held vacant and foreclosed properties and distressed

properties held in the FHA portfolio. Tenants displaced in project conversions would be protected with portable vouchers.

The revitalization of vacant housing units is the only opportunity HOPE presents to expand the fast shrinking low-cost housing inventory. Otherwise, HOPE commits scarce housing resources to claim existing low-cost housing units for homeownership. Adequate resources are not provided for replacing converted stock and the issue of where displaced tenants apply vouchers in tight housing markets is not addressed.

Homeownership for low-income people is a worthy goal and should be a component of any national housing policy. It is not, however, the single, national solution to our widely diverse housing problems. We must not let homeownership for a few who are already assisted take precedent over our national responsibility to provide basic, decent shelter for every American.

During the Reagan era, federal housing programs were cut by more than 80 percent. This trend must be reversed and housing assistance significantly increased if we are to meet our affordable housing challenge. The Administration's budget for FY 1991 makes a \$520 million cut in housing assistance after inflation and the need to renew expiring Section 8 contracts are taken into account. Although the Administration boasts a \$1.7 million HOPE initiative, this amount includes program transfers, tax expenditures and state and local matching funds. A significant first-year funding commitment such as that proposed in S. 566 is desperately needed and long overdue. We cannot settle for less.

Build a Decentralized, Nationwide Network of Partnerships

Even with a \$3 billion federal investment, the housing supply gap cannot be filled. Budget realities and experience under categorical federal programs strongly suggest that federal housing assistance must be provided in a new way. Narrowly defined, national prescriptions such as those proposed in HOPE are not the answer. A new federal program must induce the commitment of nonfederal funds through partnerships with state and local governments and the private sector.

The Senate HOP program is built on partnerships. Financial assistance would be directed to state and qualifying local jurisdictions, through a newly created, streamlined institution, the Government National Home Corporation (the Home Corporation). Eighty percent of available funds would be allocated among states and local jurisdictions, in accordance with a formula based on a series of housing need indicators.

Half of the funds would be distributed among the states, with each receiving at least \$3 million. The other half would be distributed among larger local governments. States would have responsibility for addressing housing needs in all areas of the State, and cooperation among states and localities would be strongly encouraged.

State experience, capacity, resources and proven housing programs make a strong case for a greater portion of the funds to be allocated to the states. We accept the 50/50 split, however, for it supports an equal partnership between states and localities in battling housing problems. We would strongly protest a bill which allocated less than 50 percent of the formula HOP funds to the states, however.

States and localities would be required to contribute matching funds equal to 25 percent of HOP funds received in a given year. This partnership among all levels of government and the resulting leveraging of resources is essential to the success of a national housing program.

HOPE offers state and local governments little incentive to partner with the federal government. Under HOPE, funds would be awarded competitively, on a project-by-project basis to tenant associations and non-profits. States and localities would receive no direct allocation of funds, yet would be asked to match HOPE grant funds by one dollar for every two received in federal funds.

While we appreciate the value of competition, HOPE's framework for competition is badly flawed. The terms of the competition would be set by HUD, for purposes which HUD dictates, with funding decisions made by HUD. This is a process which in the past has proven vulnerable to favoritism and abuse and at a minimum, could result in decisions adverse to state and local housing priorities.

Allow State and Local Flexibility and Innovation Within Comprehensive Housing Strategies

HOP would provide funds to states and localities with a minimum of regulation and maximum flexibility to meet distinctive local housing needs. HOP funds would be channeled to state and local governments for a wide variety of purposes, including new construction, rehabilitation, acquisition, and demolition. Jurisdictions would be free to provide assistance in a multitude of forms, including grants, loans, interest reduction subsidies, and other mechanisms. The HOP program is designed to give state and local governments the broad latitude they require in assessing their needs and developing appropriate responses, while operating within a basic federal framework defined by general policy goals and population targeting.

Flexibility is not a feature of HOPE. HOPE grants are offered under a centralized structure for a very limited and strictly defined purpose, to plan and implement low-income homeownership programs. States and localities are not even eligible to apply for HOPE funds, much less able to direct their use. States and localities without a stock of existing housing appropriate for conversion, such as rural jurisdictions, would simply not benefit from the HOPE grant program.

To qualify for HOP funds, states and localities would have to submit to HUD comprehensive housing strategies which identify housing needs and priorities in their jurisdictions and outline a plan of action. No similar planning requirement is imposed on HOPE grant recipients. HOPE funding would be awarded incrementally without regard to total state and local housing need.

We strongly support the requirement of comprehensive housing strategies. Such strategies are needed to identify, prioritize and address housing problems and to avoid incremental, piecemeal solutions. States are now required to prepare housing plans as a requirement for administering the Low-Income Housing Tax Credit. A single, statewide plan could be prepared that would satisfy the requirements of all federal housing programs and most importantly, integrate all available resources in a single, comprehensive response to housing needs.

During the past decade of federal withdrawal from housing, states have designed and administered a host of innovative housing programs to respond to their unique housing needs. The Home Corporation and HOP provide a means for replicating these model programs throughout the country by providing information, financial assistance and credit enhancement.

In addition, HOME and HOP allow for ongoing innovation as housing needs and priorities change over time. This adaptability is a crucial feature of a new housing program, which is not a feature of HOPE. The bill must allow for adaptation to changing housing markets and a changing economy.

Replicate Model Programs and Refine Section 8 Certificates, Vouchers, Section 202, Supportive Housing and McKinney

States are a laboratory for housing program design. With reduced federal funding, states and localities have been forced to innovate and find unique solutions to local and area problems. Under S. 566, the HOME Corporation would spotlight the successful housing programs and provide a facility for disseminating the results.

The Senate bill would refine and simplify the Section 8 Certificate and Vouchers programs, combining the two into a single form of assistance, the Rental Credits. A rapid transition to Rental Credits is important and should be planned to coincide with contract renewal of all rental assistance, except that associated with preservation projects. All new incremental assistance should be in the form of Rental Credits.

Sound improvements to the Section 202 program are also contained in S. 566. We are pleased that both the Senate and Administration bills provide for supportive housing activities. While we recognize that changes to streamline the McKinney homeless programs are needed, we are disturbed by the relatively small role which states are accorded under the Senate proposal. This approach seems especially unwise given that necessary supportive services are administered by states.

We strongly support the provision of credit enhancement through the HOME Corporation. Difficulties in structuring debt financing for low-income rental projects confound production of needed units. We understand the care which must be taken in underwriting these projects and point with pride to 20 years of sound multifamily underwriting by State HFAs.

Preserve the Federally Assisted Low-Income Housing

Congress must take the necessary steps in this bill to ensure that no assisted units affordable to low-income households are lost from the affordable housing inventory. Secretary Kemp in his testimony before this Committee acknowledged that the first step toward ensuring an adequate supply of affordable housing is to preserve the existing assisted stock. Both HOPE and the Senate bill recognize that a legislative solution to this problem that will ensure the long-term availability of this housing for low-income use is required.

The Administration believes that homeownership is the most effective means for preserving this stock. As a first line of response, the Administration recommends that tenants of this housing be offered a first-right-of refusal to purchase these properties. While we share this goal of tenant ownership, it will not be feasible in every case. To avoid the loss of units from the assisted inventory, a strong set of incentives must be offered to facilitate the purchase of at-risk projects with prepaid mortgages by entities which will guarantee extended low-income use. With the supply of units affordable to low-income households diminishing and the costs of producing new affordable unit escalating, we cannot afford to lose any units to prepayment.

We recommend four steps to effective preservation. First, expiring annual contributions contracts must be renewed and we commend the Administration and Congress for your willingness to meet this need. Second, project owners must be encouraged not to prepay their mortgages and convert their properties to market use. The incentives in the 1987 Act are appropriate, but must be augmented by a method for determining a project's value acceptable to the owner and public agencies. NCSHA proposes that all parties be brought together to work out a compromise to the various valuing options which have been proposed. Third, if prepayments occur, incentives must be available to purchasers, tenants or others, who will commit to extended low-income use. The Low-Income Housing Tax Credit and tax-exempt bonds must be available in adequate supply for this purpose. Tax forgiveness of some portion of the owner's capital gains can reduce demands for other subsidies. Rental assistance must be present. Fourth, aging, deteriorating projects with no prospect for prepayment must be rehabilitated. Changes in ownership may be necessary. Financing is essential, including FHA insurance on subordinate loans. Rental assistance increases will also be needed.

Conclusion

NCSHA strongly supports S. 566 as the best, most promising housing legislation in decades. In this bill are three years of work invested by virtually everyone with an interest in housing. While the Administration's proposal is welcomed, it should not be regarded as an alternative to the Senate's fine work. This is great legislation. The members of this Committee have patiently listened to hours of testimony and carefully nurtured the formulation of this bill. Your staff has done a superb job. Please pass this bill soon so that we can redirect our efforts to obtaining funding from the budget and appropriations Committees.

The State HFA Response To Changing Housing Needs: Models For The HOME Corporation

State HFAs nationally have undertaken a host of innovative programs across the broad spectrum of housing needs. Model programs are presented below in three categories -- homeownership, rental and special needs housing.

Homeownership Initiatives

State HFAs have financed over a million single-family loans at below market interest rates for low and moderate income homebuyers. As barriers to homeownership have varied over the years, so have the programs designed by HFAs.

Where downpayment is the greatest burden, downpayment assistance has been provided (over 15 states administer such assistance). When capital has not been available in rural areas, HFAs have delivered capital, often in tandem with other programs which alone would not work in these areas. When mortgage insurance has not been available to first-time homebuyers at an affordable price, or at all, HFAs have created their own insurance programs, or have created risk-sharing plans with existing insurers.

Where construction and land costs have made new homes unaffordable to first-time homebuyers, HFAs have negotiated with developers or acted as developers, to dramatically lower the final purchase price of such homes. Design awards have encouraged low-cost construction techniques and energy efficiency. Where rehabilitation has been the key to homeownership for first-time homebuyers, HFAs have provided funds for this purpose. Where vacant foreclosed properties have been available, HFAs have created special programs to utilize this housing.

The inability to generate enough savings to meet downpayment and closing costs presents one of the most serious barriers to homeownership for first-time homebuyers. Over 15 HFAs have designed assistance programs to address this problem --- programs such as matched downpayments (California HFA), sweat equity (California HFA), second mortgages (Minnesota, New Hampshire, New Jersey, Rhode Island and other HFAs), and revised underwriting criteria for insurers and lenders -- allowing thousands to access the homeownership market who otherwise would have been closed out.

Two states, Delaware and California, are considering changes in their state tax codes to permit IRA-like savings accounts for down-

payments. However, the Michigan HOST program recognizes the further need to control for inflation in home prices.

Recognizing that areas of their states are not adequately served by mortgage capital, several HFAs including those in West Virginia, Vermont and Minnesota are developing the capacity to originate and service mortgages to serve these areas. By developing this capacity, the agencies are able to augment the private sector and respond to a clear housing need, the availability of mortgage capital.

Where tax-exempt bonds cannot fully address industry gaps, taxable bonds have been added. In Alaska, the state provides the majority of capital for all homebuyers. While tax-exempt bond funds serve those able to meet income and purchase price limits, taxable bonds serve those who purchase beyond those limits. In Minnesota, where improvement of existing homes was being overlooked, a home improvement loan program was created using both tax-exempt and taxable bonds.

The private mortgage insurance industry has recently been facing heavy losses and, as a result, has been less willing to serve the types of homebuyers who participate in HFA programs. In response, various agencies such as California, Vermont, New Hampshire, Maryland and Connecticut have crafted innovative mortgage bond credit enhancement programs, to the extent their resources permit. Massachusetts and Rhode Island are nearing the implementation stage as well.

Where Real Estate Owned (REO) properties are a serious problem -- such as in Texas, Oklahoma and West Virginia -- HFAs have crafted innovative solutions. West Virginia utilizes REOs in the FmHA inventory to serve large (often homeless) families whose incomes average well below \$10,000 per year. The HFA guarantees the loan for the first three years -- the riskiest period -- and FmHA offers a loan with an interest rate based on the family's income, as low as one percent. In Colorado, a similar program using HUD foreclosed properties is coming on line, and in Oregon, the HFA makes some of its foreclosed properties available to local human service organizations for use as transitional housing until families can be permanently housed.

These and other innovative HFA homeownership initiatives are described briefly below:

- ✓ Rhode Island Housing and Mortgage Finance Agency First Home Loan Program: Three-tier financing program for households with less than \$23,000 income.

- ✓ California Housing Finance Agency Self Help Program: works with nonprofit development corporations to provide home loans to families with less than 80% of median income. Homebuyers are required to help construct their own homes.
- ✓ Florida Housing Finance Agency Affordable Housing Demonstration Program: Uses a state appropriated Housing Trust Fund to make permanent non-assumable loans to very low-income households.
- ✓ New Hampshire Housing Finance Agency and Vermont Housing Finance Agency blend financing to encourage low-income rural homeownership.
- ✓ Virginia Housing Development Authority Rural Homesteading Program: provides rehabilitation loans on foreclosed properties purchased with HUD homesteading funds and sold to eligible low-income families for \$1.
- ✓ Wisconsin Housing Development Authority Low Downpayment/Low Marketability Area Insurance Program: uses agency funds to co-insure with a private mortgage insurer the mortgage on 95% loans.
- ✓ State of New York Mortgage Agency has financed every loan made under the federal Nehemiah Program.
- ✓ New Jersey Housing and Mortgage Finance Agency Lease Purchase Program: uses a portion of a families rental payment to count against a downpayment on the purchase of home.
- ✓ Maine Housing Authority Maine/Enterprise Program: involves rural and urban efforts with nonprofits for home rehabilitation and instruction in low-cost construction.

Rental Housing Initiatives

As with homeownership programs, state HFA rental programs have evolved as housing needs and resources have changed. Initially, HFAs were involved in HUD's 236 program and then the Section 8 program. When funding for the Section 8 new construction and substantial rehabilitation programs was phased out, agencies turned to a greater reliance on tax-exempt bonds -- the 80/20 program.

Changes in the 1986 Tax Reform Act have limited the use of tax-exempt bonds, causing HFAs to turn to other financial tools, such as the Low-Income Housing Tax Credit. A key to the success of these efforts has been the presence of state funds. State HFAs in Massachusetts (the SHARP program); Florida (the SAIL program); and Connecticut (the PRIME program), using state appropriations have broadened the impact of their bond programs through reduced interest rates, and in some cases, rental subsidies.

In other states, where state funds are not available, various resources are being drawn upon. State HFA resources, local resources and remaining federal resources are being combined to produce rental housing. For the most part, these efforts are

tailored to specific projects and are not easily replicable. The New Jersey HFA, for example, has used six or more sources of subsidy to finance a single rental project.

Perhaps no better example exists of the creation of a model by HFAs in the post tax reform environment than the Low-Income Tax Credit experience. Created by the 1986 Tax Reform Act, this program was given to states to administer. Working closely together and through their national organization, the HFAs developed plans and procedures in the absence of regulatory guidance. Manuals and forms have been shared, technical meetings held and clearinghouse services provided that rely on the willingness of agency staff to share their experience with their peers.

Examples of model HFA rental programs are highlighted below:

- ✓ California Housing Finance Agency State/Local Rental Housing Program: provides agency funds to buy down project take-out financing predicated on local government contributions and private capital. Program targets 80 percent of funds to low-income and 20 percent to very low-income.
- ✓ Michigan Housing Development Authority Multifamily Developer Incentives Program: provides sliding scale interest rate financing for low-income rental housing targeted to distressed areas. Rental rate subsidy can equal \$300 per unit.
- ✓ West Virginia Housing Development Fund Construction Loan/FmHA Program: provides low-interest construction loans to FmHA projects in areas with limited capital markets.
- ✓ Maine Housing Authority Rental Rehabilitation Program: provides financing for rental rehabilitation in areas not eligible to participate in the federal Rental Rehabilitation program, augmenting the loans with state rental assistance.
- ✓ South Carolina Housing Finance Agency Public Rental Housing Project Program: develops projects, secures FHA financing and upon completion sells to developers rental projects in areas of crucial housing needs.
- ✓ Colorado Housing Finance Agency Rental Acquisition Program: acquires distressed projects from owners using agency funds and owner financed bridge loans with financing insured by FHA 223(f), qualifying the project for 100 percent financing and reducing the rents.
- ✓ Minnesota Housing Finance Agency Taxable Bond Program: provides 30 year financing for refinancing and rehabilitation of rental projects.
- ✓ Massachusetts Housing Finance Agency SHARP Program: provides interest write-downs and rental subsidies with state appropriations.

- ✓ Maryland Community Development Authority Rental Housing Production Program: uses state general funds and revolving funds to provide low-interest, deferred loans for rental housing where all tenants are 60 percent of median income or below and 50 percent of tenants are below 30 percent of median income.

Special Housing Needs Initiatives

State HFAs are building upon their experience in financing elderly projects by providing supportive services. A \$4 million grant from the Robert Wood Johnson Foundation is being used by ten state HFAs to develop supportive services packages for selected elderly housing projects. The models developed through this process will be available to other agencies. It is important to note that that Robert Wood Johnson commitment equals that of HUD's entire supportive services demonstration for public housing. The breadth and diversity of supportive services models among HFAs should be as rich, if not richer, than those in public housing.

Several HFAs, including Virginia, Colorado and Kentucky have already designed housing programs which include supportive services for families, particularly single-parent families. The experience with these programs (in some case modeled after HUD's "Project Self-Sufficiency"), will help other HFAs develop similar programs. As funding permits, HFAs are looking to expand the Robert Wood Johnson model to include services for families.

Although the first priority of state HFAs has always been to create a base of permanent affordable housing to prevent homelessness, homelessness is a reality. Most HFAs have begun to make some of their resources available for emergency and transitional housing, as well as for permanent stock. Assistance has taken the form of grants or loans for shelter or transitional housing construction or rehabilitation, operating costs or supportive services. Many of the HFAs are using their funds to match federal McKinney Act grants.

The New York HFA sold almost \$14 million in tax-exempt bonds to finance development of a 200 unit shelter for homeless families and individuals in Brooklyn. Numerous private entities are supporting the project by providing services free or at cost. In Pennsylvania, \$10 million dollars of the HFA's general fund revenues has been reserved for the development of multifamily apartments, reserved specifically for the homeless. Twenty-one providers have been funded under this program. In Oklahoma, the HFA was able to negotiate with the landlords of vacant apartments in order to move families from their waiting lists into units, at rents consisting of 30 percent of the family's income. High vacancy rates for multifamily

property owners provided the impetus for this special arrangement with the HFA.

Iowa has begun reviewing proposals for the use of \$100,000 in state appropriations targeted for the homeless. In Maine, six nonprofits were selected to participate in a demonstration project known as the "Homeless Family Transitional Living Project," which will offer longer-term transitional housing and social services to families with children (housing is available for up to two and one-half years). In Georgia, agency funds have been combined with federal funds to create a pool of over \$1 million. Oil overcharge dollars were used to match HUD Emergency Shelter Grants, and a single application used, drastically reducing the paperwork burden for applicants. These and other innovative approaches have played a large part in increasing the amount of housing stock available to the homeless.

Further examples of State HFA efforts to support the housing needs of special populations include the following.

- ✓ Connecticut Housing Finance Agency Reverse Annuity Mortgage Program: provides reverse annuity loans to low-income elderly homeowners needing an income supplement to live independently.
- ✓ Georgia Residential Finance Authority Homeless Shelter Assistance Program: uses agency funds to provide low-cost loans to nonprofits building shelters and SRO housing.
- ✓ Illinois Housing Finance Agency Elderly Housing Coordination Program: assesses the needs of elderly tenants and coordinates provision of services packages.
- ✓ Kentucky Housing Corporation One-parent Family Facilities Program: provides affordable housing, career counseling, job training, and on-site day care for single parent families.
- ✓ Michigan State Housing Development Authority Special Housing Programs: provides group homes for developmentally disabled and physically handicapped individuals.
- ✓ Texas Housing Authority Community Group Homes Program: uses state and agency funds to finance community group homes for mentally and physically handicapped individuals in transition from institutions to self-sufficiency.

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Statement of

PAUL C. BROPHY
PRESIDENT
THE ENTERPRISE FOUNDATION

Before the

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

of the

UNITED STATES SENATE

March 29, 1990

Statement of

PAUL C. BROPHY

Before the

Subcommittee on Housing & Urban Affairs
United States Senate

My name is Paul C. Brophy. I am the president of The Enterprise Foundation, which for eight years has worked across the country to provide decent housing for very low-income people. The founder and chairman of The Enterprise Foundation is James W. Rouse, who along with David Maxwell, the chairman and CEO of Fannie Mae (Federal National Mortgage Association), headed the nonpartisan National Housing Task Force. It was my privilege to serve as a member of the Task Force along with 25 other men and women of widely diverse political and economic backgrounds drawn from all facets of the housing industry.

The mission of The Enterprise Foundation is to see that all very low-income people in the United States have fit and affordable housing within a generation and that they have the opportunity to work up and out of poverty into self-sufficiency and into the mainstream of American life.

The Enterprise Foundation has raised over \$65 million in grants and loans and more than \$118 million in tax credit equity investments from the private sector to house the poor. It is working with more than 100 nonprofit groups in 30 cities. Through our network of neighborhood nonprofit corporations, 11,000 units of decent housing for very poor people are being provided, and 16,000 hard-to-employ people have been placed in jobs through 16 job placement centers.

We are tremendously encouraged by the readiness of local people to organize and work effectively to produce and manage community-based housing. Enterprise works closely with the people of the neighborhoods, with local leaders, and with local governments to understand the problems and find answers. We work to reduce the cost of rehabilitation and new construction and the cost of financing. We work to connect local human service providers with the people in the housing. We try to restore the lives of people as well as buildings and neighborhoods.

While we are heartened by this increasingly sophisticated capacity to create decent, affordable housing and livable

neighborhoods, we are deeply concerned about what we see daily in the deterioration of a huge segment of our society. Credible, compelling documentation of this pervasive need has been made by our country's respected institutions, and the consequence of an 80% cut in federal housing programs over the last decade is in great evidence throughout our communities.

Masses of men, women, and children are homeless. The Urban Institute estimates that over a million Americans are homeless over the course of a year. The National Academy of Sciences reported to Congress an estimated 750,000 people are homeless, of which 100,000 are homeless children, and six million more Americans are living at "extreme risk," unable to afford the housing they occupy -- one paycheck away from becoming homeless themselves.

There are 16 million households with incomes below \$10,000-- for a wage earner, that is pay of \$5 per hour. If they are a typical low-income renter, they pay 50% or more of their income for rent, much of it for wretched housing. This leaves \$15 per day for food, health care, transportation, and all of life's other needs.

Based on Census data, the gap of rental units affordable to the poor versus those available has reached 3.8 million units. Over the past few years, Congress has provided about 80,000 new assisted housing units annually. A proverb counsels that unless you change directions, you are likely to end up where you are headed. With this in mind, it would take nearly 50 years, perhaps by the year 2040, to fully meet this current need.

Our benchmark should be that it is unconscionable to continue this present path at peril to wasted lives, our nation's economic well-being, and our children's future. There are solutions. Because the magnitude of our housing needs is so great, our solutions must build on proven, existing programs and encompass the promising "new wave" of local initiatives and resourcefulness in a collaborative effort. It is imperative that the federal government provide pivotal leadership and significant funding in partnership with state and local governments, the private sector, and community groups.

Legislation enacted by the Congress must be measured by its creativity in fully addressing the goal that every American family be able to afford a decent home in a suitable environment. The National Affordable Housing Act is the blueprint for achievement of this goal. Clearly, the bill embraces a vigorous federal leadership role and accommodates a comprehensive range of housing needs--affordable homeownership and rental housing production, low-income public housing, rural housing, and special needs housing, including homeless assistance. The bill advances new partnerships and new institutions to implement creative

solutions to do the job. All were considered essential by the National Housing Task Force to adequately and flexibly address needs within specific local markets.

Since introduction of The National Affordable Housing Act in 1988, a new Administration under President Bush has taken office. The energetic leadership of HUD Secretary Jack Kemp and the unveiling of the Bush/Kemp HOPE initiative present new opportunities to actively engage the Administration in crafting a bold national housing policy. The ideas in HOPE merit thoughtful consideration, and the Senate Housing Subcommittee has asked that we share our insights on these proposals for inclusion within major housing legislation.

Addressing America's Housing Needs

The National Housing Task Force advanced a comprehensive program to address the goal of fit, livable, and affordable housing for all Americans by the year 2000. Its centerpiece is the creation of the highly targeted, flexible Housing Opportunities Program (HOP) to be funded at \$3 billion combined with \$1.5 billion in local matching funds. The Task Force estimated that HOP could generate 150,000 to 200,000 new units per year for rental and homeownership.

The \$3 billion in recommended new funding for this flexible HOP was in addition to full funding recommended for a number of proven, effective existing programs, including public and Indian housing, Section 202 elderly housing, homeless programs, and rural rental assistance and homeownership programs of the Farmers Home Administration.

Related federal programs, such as Community Development Block Grants (CDBG), would not be reduced because of their overall importance in community revitalization.

A separate strategy and funding was presumed for the preservation of federally subsidized units subject to prepayments, Section 8 contract renewals, and long-term reinvestment and modernization of the public housing stock.

The Task Force also recognized tax incentive programs as a vital means of increasing the supply of affordable housing. A permanent extension of the Low Income Housing Tax Credit, which produced more than 124,000 units of housing for low-income people in 1989, was endorsed by the Task Force and is a vital step. This tightly targeted program was further improved in 1989 and deserves continued support.

In addition, the Task Force endorsed expanded availability of tax-exempt bond financing for low-income rental housing, and to allow use of IRAs and other self-funded benefit plan monies

for first-time homebuyers to make downpayments.

The Task Force's report was formulated before it became apparent that significant reforms were needed in the Federal Housing Administration (FHA). We must guard FHA's ability to continue to open homeownership opportunities for low and moderate income families by ensuring its proper operation, including suitable staffing to monitor its insurance programs. Furthermore, it should be able to serve homebuyers and renters in all areas of the country, using revenues from strong housing markets and lower risk borrowers to provide essential mortgage credit needs in more difficult markets, all without taxpayer subsidies.

The Task Force also called for the provision of 100,000 units of rental assistance over and above the President's FY 1989 request, an incremental increase of 200,000. This level was recommended as one step, so that by the end of the century, in combination with an increased supply of affordable housing, no household seeking fit, livable, and affordable housing would lack the opportunity to obtain it.

Reaching Our Housing Goals

In 1989, The National Affordable Housing Act was introduced with bipartisan support. It embraces many of the key recommendations advanced by the National Housing Task Force, including a \$3 billion HOP. Total funding above the current services baseline for the entire bill is estimated at \$3.6 billion in new budget authority for FY 1991. The HOPE proposal is a \$1.2 billion initiative.

Clearly, there is a substantial difference in the scale envisioned for addressing our country's housing needs. Secretary Kemp has testified before Congress that he advocated a higher number with the Office of Management & Budget, but was unsuccessful in obtaining it. The resultant HOPE package reflects this funding constraint and HUD's stewardship approach in refining and targeting existing programs. In addition, the focus of the Administration's new initiatives in HOPE is on creating low-income homeownership in public housing (\$96 million), Urban Homesteading of Multifamily Properties (\$72 million), and Homeownership through Nonprofits (\$72 million). These three initiatives combined amount to the \$240 million commonly referred to as "new grant money" in the HOPE bill.

Beyond these differences in funding scale, our task becomes one of honest debate in how to blend the best of both proposals. It is our view that the HOPE programs could augment the comprehensive approach in The National Affordable Housing Act in a number of key ways. Specifically, its components on targeting of resources, emphasis on combining housing assistance with

supportive services, and stress on encouraging individual self-sufficiency--all add value toward meeting critical housing needs.

The Administration's up-front endorsement of a one-year extension of the Low-Income Housing Tax Credit is an important recognition that production of affordable housing is needed. Under the bipartisan leadership of Senators Mitchell and Danforth, the bill (S.980) to permanently extend the credit has 75 co-sponsors. We gratefully acknowledge this support, including Senators Cranston and D'Amato and other members of this subcommittee. Since it was created in 1986, the credit has emerged as the primary tax incentive for stimulating low-income housing production and rehabilitation, and it is producing needed housing in all parts of the country. Enterprise and other nonprofits have found the credit to be especially useful in difficult market niches, including depressed inner cities and rural areas. The Enterprise Social Investment Corporation (ESIC), which packages credit projects involving nonprofits, has raised over \$118 million in equity financing from more than 60 major corporations. This new stream of capital enables ESIC to craft public/private partnerships producing more than 5,000 units of housing for poor Americans.

In addition to seeking a permanent extension for the tax credit this year, Enterprise endorses a below market up-front purchase option that will provide nonprofits with an orderly process to acquire tax credit projects as low-income use provisions begin to expire. Through this mechanism several objectives can be achieved, including creation or enhancement of alternative forms of homeownership such as cooperatives and transition to individual low-income homeownership. [Current law limits the ability of nonprofits at the outset of the development process to structure such agreements with a for-profit owner.]

We are also encouraged by HOPE's acknowledgment of the growing capacity and sophistication of nonprofits in creating housing opportunities, managing properties, and linking human services. We share these objectives.

Involving nonprofits in expanding the supply of affordable housing is enhanced by the approach outlined in the HOPE for Homeownership for Nonprofits to supplement the Urban Homesteading Program. The expanded eligibility for multi-family properties, a matching requirement to promote local partnerships, and relocation assistance for nonpurchasing tenants are particularly helpful refinements.

The Administration's stated support for full funding of McKinney programs is indeed an important and compassionate commitment. The Task Force identified homelessness as "the problem that won't wait," and advocated full funding of The

McKinney Homeless Assistance Act in a manner that creates incentives for local partnerships among local government, the private sector and nonprofits to address immediate needs of the homeless and to devise ways to prevent homeless.

The Task Force also found that homelessness is a problem of many dimensions varying widely from city to city and that its composition fluctuates as economic and other conditions change, leading to its characterization as a "stream" of people, not a "pool." As such, the Task Force believed that the McKinney programs were too categorical in approach and advocated more flexible funding for locally devised solutions.

The Administration gives serious attention to the difficult problem of preserving stock endangered by prepayment, and we share their concern to minimize displacement of existing low-income residents and create alternative ownership opportunities. Transferring prepayment stock into alternative ownership for low-income owners or nonprofits also requires recognition of tax liabilities that sales will trigger. Exclusion of gain to reduce the sale price is essential to transfer properties to low-income ownership.

How HOPE Compares to HOP: Key Areas

A major point of departure in HOPE from the approach envisioned by the Task Force regards the resource distribution mechanism. The HOPE proposal calls for a dozen initiatives to be awarded by HUD. The Task Force agreed that the government closest to the people is best situated to identify and respond to the varying conditions and needs of local housing markets. Thus, HOP was conceived as a highly targeted, but flexible subsidy capable of addressing widely divergent needs in local housing markets.

Of the \$3 billion HOP, 80 percent (\$2.4 billion) would be split 50/50 and distributed via a needs formula to states and localities. The remaining 20 percent (\$600 million) would be distributed as an incentive allocation by HUD.

States and localities would leverage HOP with \$600 million, a 25 percent match; while the incentive allocation match must exceed 25 percent, producing a minimum of \$150 million. HOP's formula distribution would provide a steady stream of capital particularly useful for gap financing rather than attempting to compete for available categorical monies that may not best meet local needs or a particular project at hand. The incentive allocation competitively awarded by HUD would nurture innovative projects and create new models.

HOP was conditioned, however, on responsible HUD oversight to include review and approval of a 5-year housing affordability

strategy. HOP-funded projects would have to be consistent with the needs identified in the 5-year strategy. As detailed in The National Affordable Housing Act, the strategy requires the jurisdiction to describe housing characteristics, income levels, family makeup, homelessness, the need for affordable housing, and other characteristics. It is here, perhaps, where the HOPE proposals could contribute some thoughtful refinements to the housing affordability strategies by further examining critical linkages with human services and identification of especially hard-to-serve special populations, such as the homeless who are chronically mentally ill or substance abusers. Identification of HUD, RTC and other REO inventory could also be included.

Housing affordability strategies must also examine drawing in all possible partners and additional private resources into the delivery system to leverage federal HOP dollars. This has particular relevance for nonprofits, which receive a 10 percent set-aside of HOP funds that increases to 15 percent in the fourth year. Although the HOPE initiatives have various set-asides for nonprofits or eligibility for grant activities, these initiatives are exclusively geared to creating low-income homeownership. Nonprofits have become increasingly sophisticated in drawing in new capital from the private sector for investment in low-income rental housing, often through the Low-Income Housing Tax Credit. This capacity should not be strapped by an exclusive HUD focus on low-income homeownership. Nor should any strategy ignore the fact that real needs in certain neighborhoods are for low-cost rental housing.

Under HOP, existing or potential capacity of community-based nonprofits can be tailored to address housing needs with respect to homeownership and rental production. Often, nonprofits are geared to produce affordable rental housing because that is the greatest need and most practical solution in distressed inner city neighborhoods with depressed household incomes. Subsidizing a low-income renter to become a homeowner can be merely a change of tenure because no "net" low-income units are created if the family buys the unit in which it is living. Until a community approaches solving its critical needs for affordable rental housing, it may be reasonably reluctant to put enormous energies and resources into creating homeownership. Thus HOP can flexibly accommodate community choice in addressing its priorities needs, whether they are rental, homeownership or a combination.

The 5-year affordability strategies would also examine state and local zoning, building codes, land use, tax policies, and rent control laws contributing to homelessness or the lack of affordable housing. This aspect of the 5-year strategy is analogous to Secretary Kemp's "Barrier Removal Plans" in HOPE.

Upon approval of its 5-year strategy, the HOP establishes "Housing Investment Trusts," against which cities and states can

draw funds only on an as needed basis against the total amount provided through a needs formula distribution. This streamlines availability of funds without burdening project sponsors with federally imposed deadlines for various categorical programs. The Housing Investment Trust mechanism also enables localities to better coordinate availability of HOP funds to accommodate an individual state's funding cycles, local resources, and tax credit allocation plan.

Other Roles for HOPE: The HOME Corporation

The National Affordable Housing Act would establish the HOME Corporation within HUD to become a "one-stop" department providing states and localities with technical assistance, capital subsidies (including HOP), and credit. HOME would also be a resource center for program models and information dissemination.

Given the HUD Secretary's important role in the affordable housing programs established as part of the savings and loan bailout, the HOME Corporation concept should be expanded to incorporate access to information about Resolution Trust Corporation inventory and subsidies available through the Federal Home Loan Bank's Affordable Housing and Community Investment Lending Programs. Additionally, the HOME Corporation should centrally house information concerning access to VA, FHA, and other federal REO inventory.

Thought should also be given to incorporating the objectives of several of the HOPE programs into the HOP incentive allocation program. The \$600 million in HOP incentive funds would be matched by at least \$150 million in other resources, producing at least a \$750 million program through which HUD could competitively award grants for innovative projects.

It is here, for example, where model programs for low-income homeownership could be encouraged and housing assistance-human services linkages explored. Through the HOME Corporation's role as a source of information on model programs, the results could be widely communicated and offered for replication.

**NATIONAL
GOVERNORS'
ASSOCIATION**

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March 8, 1990

The Honorable Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
United States Senate
535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The nation's Governors are concerned with the increasing incidence of homelessness and the need to develop effective strategies to address this problem. The Governors commend the Senate Banking Committee's continued efforts to create affordable housing solutions to assist homeless people in becoming self-sufficient.

In the context of the Governors' policy on the homeless, the National Governors' Association (NGA) would like to propose a number of specific changes to the National Affordable Housing Act's section on the McKinney Homeless Assistance Act. These recommendations were developed by the NGA Work Group on the Homeless which represents twenty states, both urban and rural. All of the proposed changes will improve states' abilities to implement programs in the most efficient and cost-effective way. Many of these recommendations are based on impediments states have encountered in implementing the McKinney Act programs.

The Governors are committed to working with Congress to establish a national housing partnership to address the nation's housing needs -- one that is responsive to the need for decent and affordable housing for the nation's homeless. We hope that you can support the changes we have proposed.

March 8, 1990
Page 2

If you have any questions contact Wendy Adler at NGA at (202) 624-7819. We look forward to working with you.

Sincerely,

Richard F. Celeste

Governor Richard F. Celeste
Chairman
Committee on Human Resources

Ray Mabus

Governor Ray Mabus
Chairman
Committee on Economic Development
and Technological Innovation

Edward D. DiPrete

Governor Edward D. DiPrete
Vice-Chairman
Committee on Human Resources

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March 8, 1990

NATIONAL GOVERNORS' ASSOCIATION

PROPOSED CHANGES TO CRANSTON/D'AMATO'S NATIONAL AFFORDABLE HOUSING ACT
SECTION ON HOMELESS

1. Greater State Role in Block Grant

Current Language: (Sect. 403(a)(2))

Combines funding for four McKinney housing programs. Of the total appropriations 20 percent would be provided to HUD for discretionary grants; the remainder would be split among states and localities, with the localities receiving 70 percent and the states 30 percent.

Proposed Change:

Increase states' participation in the distribution of homeless funds. Increase the states' share to 50 percent.

Rationale:

States recognize that a block grant approach would provide increased flexibility and predictability of funding. However, a greater state role would increase statewide planning of homeless assistance, ensure the effective coordination of services provided by other state agencies and increase local government's abilities to tap into state developed funding sources to assist the homeless. Many states have appropriated funds specifically for shelters, housing and services for homeless people. Further, it will be difficult to develop a funding formula to cities which adequately addresses the dispersed nature and the differences in settlement patterns of the homeless in each state. Since states are aware of where the need for funding exists, they can more effectively target the available resources. With the growing numbers of homeless people in rural and coastal areas, states are best equipped to distribute the funds accordingly.

During the reauthorization of the McKinney Act in 1988, provisions were added that recognize the states' critical role in the centralization and coordination of services for the homeless. All states have established state coordinators on the homeless and more than thirty states have developed interagency councils to address the issue. The McKinney Act not only includes programs for housing but also programs for education, job training, mental health and other support services. These programs will be utilized more effectively and efficiently through state interagency coordination and planning. Since states have the primary responsibility in providing public assistance, social services and mental health, they have the necessary resources, which when combined with federal homeless assistance, can develop more permanent solutions to homelessness.

2. Prevention Activities

Current Language: (Sect. 403(a)(2)(iii))

There is a 30 percent cap on the total amount of funds that can be used for homelessness prevention and for essential services in emergency shelters.

Proposed Change:

Remove homelessness prevention from the essential services category and therefore the category's accompanying 30 percent cap. Establish homelessness prevention as an eligible activity within a separate unrestricted category, or shift prevention to the maintenance and operations category, which is also uncapped.

Rationale:

Currently there is only one program under Title IV of the McKinney Act where homelessness prevention is considered an eligible activity. The Emergency Shelter Grants Program permits the funding of homelessness prevention under the essential services category. In light of the fact that the essential services category is capped at 20% (and under Cranston/D'Amato would be capped at 30%) of any given allocation, funding of homelessness prevention is severely restricted. Homelessness prevention comes in direct competition with the funding of other critical essential services such as the provision of food, transportation and the hiring of direct care staff (i.e. case management). Homelessness prevention has been repeatedly demonstrated as an effective mechanism for curbing the continued growth of homelessness and has also proven to be extremely cost-effective. Every effort needs to be made to create and expand available sources of funding for this activity.

3. Staff as an Operational Expense

Current Language: (Section 412(c)(3))

Operational expenses for emergency shelters are defined as including payments for maintenance, operation (other than staff) insurance, utilities and furnishings.

Proposed Change:

Permit costs incurred for staffing of shelters to be included as an operational expense.

Rationale:

All shelters make significant use of volunteers to support their continued operations. However, the largest expense related to shelter operations are the costs related to the costs of maintaining permanent, skilled personnel. By excluding staff as an eligible expense under shelter operations, this places a burden on shelters seeking staff that are permanent or those who have professional skills in case management, drug addiction treatment and other areas. By implementing this proposed change, this program would be made consistent with the transitional housing, permanent housing and Supplemental Assistance for Facilities to Assist the Homeless McKinney programs, all of which currently permit staff as an operational expense.

4. Minimum Standards for Shelters

Current Language: (Sect. 412(b))

The bill establishes authority for the Secretary of HUD to determine standards of habitability for emergency shelters that receive funds under this bill. This is to "ensure that emergency shelters assisted under this section are environments that provide appropriate privacy, safety and sanitary and other health-related conditions for homeless persons and families."

Proposed Change:

Each grantee should be required to certify to the Secretary that housing assisted under this subtitle shall conform with all applicable state and local housing and building codes and licensing requirements in the jurisdiction in which the housing is located. In jurisdictions where emergency shelters are exempt from being regulated by housing and building codes, the grantee will be required to submit an operational plan which indicates how the emergency shelter will sustain a safe and sanitary environment for its residents.

Rationale:

States and localities across the country have developed and enforced regulations to assist emergency shelters in meeting health, safety and other standards. The Governors recognize and encourage the importance of these state and local efforts. However developing one standard that would be applicable to all states would not take into account geographical differences, rural-urban variations, varying state infrastructures.

5. Eight Bed Limit on Permanent Housing ProjectsCurrent Language: (Sect. 414(a))

Places a limit of eight beds for permanent housing projects for homeless persons with disabilities. Permits the Secretary of HUD to waive the limit placed on the number of persons in a project if the grantee demonstrates that local market conditions dictate the development of a larger project.

Proposed Change:

Increase the eight-bed limit to a 16-bed limit. Retain the existing waiver.

Rationale:

The Governors recognize and support the need to integrate projects for the disabled into the community. While HUD has granted a number of waivers on the eight-bed limit, and these have assisted providers, the process for applying for waivers has been financially burdensome and time consuming for the states. Many states report needing to scale down projects to meet the current eight-bed limit set by law. As long as the project will be fully integrated into the community, increasing the limit to 16 homeless persons will allow states to serve more of the population in need. By changing to a 16-bed rule this program would be made consistent with other federal laws for housing special needs populations.

6. Environmental ReviewCurrent Language: (Section 408(d))

This section requires that a full environmental review process be conducted for assistance and projects under this subtitle. This review process, as in current law, would be applicable to projects that fund essential services, operating costs, rental assistance and homelessness prevention.

Proposed Change:

The bill should be revised to exclude projects from the environmental review requirements that provide funding for essential services, operating costs, rental assistance and homelessness prevention.

Rationale:

The environmental review does not have any bearing on assistance that is provided for essential services, operating costs, rental assistance and homelessness prevention. When the environmental review is required for projects of this nature, it places an inordinate administrative burden on local, state and federal agencies to perform numerous and detailed analyses of conditions which have no relevance on the assistance being provided. Environmental reviews should be restricted solely to those projects which require the acquisition and rehabilitation of properties under this subtitle.

7. New ConstructionCurrent Language: (Sect. 413(b)(1) and Sect. 405(b)(1))

The bill prohibits the use of the homeless funds for new construction.

Proposed Change:

In instances where new construction will be more cost-effective than renovation or rehabilitation, the Secretary of HUD should provide a waiver to the grantee for such new construction.

Rationale:

New construction was originally excluded because of the assumption that new construction projects would be more expensive, incur longer construction periods and would create structures that are unsuitable for subsequent use. In many cases state and local governments have found that it is more cost effective to do new construction than to rehabilitate an existing building and can take less time than substantial rehabilitation. In addition, the twenty year program period for rehabilitation that would also apply to new construction will sufficiently guarantee that temporary structures are not created.

8. Rental AssistanceCurrent Language: (Sect. 422(6)(b))

Criteria for tenant selection under the new rental credits program would allow PHA's the authority to assist very low-income families who reside in transitional housing assisted under Title IV of the McKinney Act.

Proposed Change:

Criteria should apply not only to low-income families who reside in McKinney transitional housing, but also to those families in permanent housing assisted under Title IV of the McKinney Act.

Rationale:

In order for homeless persons to remain in permanent housing, many need rental assistance. This has been documented repeatedly during the implementation of current McKinney permanent and transitional housing programs.

9. Increased State/Local CoordinationCurrent Language: (Sect. 105(d))

The Secretary of HUD may encourage coordination of housing strategies between states and local jurisdictions.

Proposed Change:

Require that the Secretary shall establish coordination of housing strategies between states and local jurisdictions. Require that this include the reciprocal exchange of housing strategies and annual performance reports for review and comment between participating jurisdictions and the state.

Rationale:

This will improve state and local coordination and planning in the development of programs for the homeless. This would not translate into a "sign-off" on housing plans but rather an exchange of information. Currently there is a requirement under the McKinney Act for states and locals to share Comprehensive Homeless Assistance Plans (CHAPs) which has proven successful for long term planning.

10. Selection Criteria for Discretionary AllocationCurrent Language: (Section 405(d))

Requires the Secretary of HUD to provide discretionary grant awards based on seven different criteria including whether the project: meets urgent, unmet needs of the homeless; is in an area with a high incidence of homelessness; includes activities that would assist homeless persons who are most difficult to serve; uses housing owned by a federal, state or local government; and demonstrates coordination of state and local agencies administering housing, child welfare and public assistance programs.

Proposed Change:

Maintain the seven different selection criteria but instruct the Secretary to place special emphasis on the first two criteria: (1) whether the project's activities meet urgent, unmet needs of the homeless; and (2) whether the project is in an area with a high incidence of homelessness.

Rationale:

These first two criteria will assist the Secretary in identifying the most urgent and well-developed projects to help the homeless. Whether a project includes housing on federally or state owned land should not have the same weighting within the ranking criteria for proposed applications.

11. Emergency Shelter Grant 180 Day Expenditure RuleCurrent Language:

HUD has issued a regulatory requirement that emergency shelter grant (ESG) prevention funds be expended within 180 days of obligation.

Proposed Change:

Require, in the statute, that funds be expended within one year.

Rationale:

This 180 day rule results in the inability of states to maintain stable and continuous assistance to meet the needs of persons that are at-risk of becoming homeless. State budget planning is impeded because ESG prevention funds are available for a different time period than other homeless funds. Matching funds are more difficult to obtain because they must be obtained within such a short time frame, and staffing levels are difficult to maintain.

Staff Contact: Wendy Adler, National Governors' Association, (202) 624-7819.



AAHA ISSUE PAPER

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REPORT OF FEDERAL HOUSING POLICIES: NONPROFIT SPONSORED ELDERLY HOUSING

ISSUE: There is a critical need to restore and restructure federal assisted housing programs for the elderly. Over the past few years there has been a significant reduction in the construction of federal assisted housing which has resulted in increased homelessness, longer waiting lists, and elimination of many low and moderate income elderly from eligibility for affordable housing. There are also concerns with preserving the existing stock of affordable housing due to expiring rent subsidy contracts, potential prepayment of federal mortgages, and modernization needs. This situation is exacerbated by a number of HUD administrative actions which have constrained development and management of elderly housing. Finally, there is a need to provide supportive services to assist increasing numbers of frail elderly as they "age in place".

BACKGROUND: Federal assisted housing programs have been reduced by over 80 percent compared to 1970's levels. Since 1983, the only federal program for financing new construction has been the Section 202/8 program for elderly and handicapped housing. Despite increased elderly population and critical need, there has been a steady decline in federal assisted housing since 1979, when over 20,000 units of Section 202 were funded. The FY90 appropriations for HUD provided funding for only 6,375 units of Section 202/8 elderly housing (plus 2,125 units for handicapped). The HUD proposed FY91 budget requests funding for less than 4,000 units of new construction (including 890 units for handicapped). There are currently over a quarter million persons on Section 202 waiting lists — this represents 11 older persons waiting for each available Section 202 unit in urban areas. Many low and moderate income older persons are no longer eligible for federal assisted housing due to eligibility restrictions; yet they cannot afford market rate housing. In addition, administrative actions, such as unrealistic fair market rents and counterproductive cost containment restrictions, have also curtailed cost-effective development and management.

Congressional Action - To redirect federal housing policies, Senators Cranston (D-CA) and D'Amato (R-NY) introduced S.566, The National Affordable Housing Act. This proposed legislation includes "Supportive Housing for the Elderly" which would: establish a HUD Assistant Secretary for Supportive Housing; restructure Section 202/8 funding into a forgivable loan with an operating subsidy; retrofit existing elderly housing projects and provide staffing to accommodate supportive services for frail elderly. Congressman Gonzales (D-TX) introduced H.R. 1180, the Reauthorization of the Housing and Community Development Act which would: authorize a two-year extension of the present Section 202/8 program; earmark Section 202 funds to retrofit facilities; and fund a supportive service coordinator. Congressman Roybal introduced H.R. 2376, Supportive Housing for Frail Elderly, which would revise the Section 202/8 program (similar to S.566); provide for a supportive services coordinator, and provide HUD funding as a match (15%) for the costs of supportive services for frail elderly.

Administrative Action - On March 13, 1990, the Administration introduced H.R. 4245, Homeownership Opportunities for People Everywhere (HOPE), which focuses on programs to: give residents options to buy certain federal assisted properties; use tax incentives; provide grants to rehabilitate government properties for resale to low-income people; and provide supportive housing for the homeless.

The HOPE program also includes a demonstration program to link supportive services for frail elderly. The program would provide competitive grants for service supportive vouchers (\$10 million) linked with housing vouchers (\$34 million) to assist 1,500 frail elderly. Residents would be required to pay 10% of the cost of the supportive services; HUD would provide 40%, and states the balance.

AAHA's POSITION:

- o AAHA supports the establishment of a clear national housing policy which promotes an effective public-private partnership between the federal government and nonprofit sponsors of elderly housing;
- o AAHA supports effective federal leadership for reform of federal housing policies affecting the development and management of suitable and affordable housing options for older persons;
- o AAHA supports forgivable loans with project operating assistance to replace the present Section 202/8 program with the flexibility for mixed-funding and mixed-use projects, including the use of Section 202 funds in conjunction with mortgage insurance, interest subsidies, tax incentives, and the proposed HOPE, HOP, or Community Partnership programs;
- o AAHA supports the financing of a supportive services coordinator as part of the project operating budget, as well as funds to retrofit/rehabilitate existing nonprofit sponsored elderly housing projects to accommodate supportive service needs of aging residents;
- o AAHA supports increased access to replacement for reserve accounts (R&R) to rehabilitate/retrofit nonprofit sponsored federal assisted elderly housing, as well as the option for nonprofit sponsors to transfer Section 236 excess rents to their R&R account;
- o AAHA supports mixed-income facilities, and the relaxation of current targeting policies in order to provide affordable housing options for low and moderate-income older persons that would foster a better social mix and facilitate linkages with community services;
- o AAHA supports the development of effective mechanism to link supportive services with housing, including federal-state matching funds for supportive services, sliding scale fees for copayment by residents, and the use of tax incentives for the establishment of supportive service foundations within each project to finance social services subsidies;
- o AAHA supports the need for more cost-effective and realistic management of HUD facilities through increased technical assistance, increased communication and training, equitable and timely adjustment with operating budgets, access to reserve accounts, accelerated development processing, and management flexibility with a formal appeals process to HUD regional and central office.

For further information, please contact Larry McNickle or Kenneth Stewart on AAHA staff at (202) 828-9428.

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A A H A

COMPARISON OF
S.566, NATIONAL AFFORDABLE HOUSING ACT (CRANSTON/D'AMATO)
H.R. 1180, HOUSING AND COMMUNITY DEVELOPMENT ACT (GONZALES)
H.R. 4245/ S.2304 HOUSING OPPORTUNITY FOR PEOPLE EVERYWHERE (HOPE)
H.R. 2376, HOUSING FOR THE FRAIL ELDERLY (ROYBAL/CAJAL)

Key Provisions of Proposed Reform for Elderly Housing Section 202

o ASSISTANT SECRETARY FOR SUPPORTIVE HOUSING

- S.566
Section 501 - establishes an Assistant Secretary for Supportive Housing
 . to administer housing program exclusively for persons with special needs of elderly, handicapped and homeless that require supportive services related to housing
- H.R. 1180 - no provision
- H.R. 4245/S.2304 - no provision
- H.R. 2376 - no provision
- Existing Law - existing federally assisted elderly housing programs primarily do not provide for supportive services (some with CHSP and McKinney Act)
- AAHA position - supports S.565 as a means to promote linkages of support services with housing; particularly with inter-department collaboration with HUD, HHS and other federal agencies.

o FUNDING MECHANISM

- S.566
Section 511(c)(1) - forgivable advance (grant)
 . interest free
 . 40 years, as long as used for elderly housing
 . authorizes \$648 million in FY90 and \$677 million in FY91 for 12,000 units (additional 5,000 for handicapped)
- H.R. 1180
Section 421 - reauthorizes current Section 202 program
 . authorizes \$579 million in FY90 and \$594 million in FY91 for 10,000 units (elderly and handicapped)
- H.R. 4245/S.2304 - keeps existing loan/Section 8
 . FY91 budget requests \$228 million in budget authority for 3,967 units (including 870 units for non-elderly handicapped) for new construction

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Donald L. Gilmore, Chairman • Sheldon L. Goldberg, President

- . 3,000 units of Section 202 by leasing, including 1,300 for non-elderly handicapped

- H.R. 2376
Section (2,a,B)
- Project Development Assistance (capital advance)
 - . interest free
 - . no payment required as long as used for elderly/handicapped revolving fund, including repayments; authorizes "such sums" to support up to 21,000 units for FY90

o SUBSIDY MECHANISM

- S.566
Section 511(c)(2)
- Project Rental Assistance (monthly operating subsidies)
 - . gap between revenues/operation costs
 - . 20 year contract with five year extensions
 - . \$481 million in FY90 and \$523 million in FY91

- H.R. 1180
Section 401(b)(iii)
- continues Section 8 rent subsidy
 - . authorizes \$1.46 billion in FY90 and \$1.53 billion in FY91

- H.R. 4245/S.2304
- continues Section 8 subsidy (Section 162 for handicapped)
 - . FY91 budget requests \$457.9 million for 20-year Section 8 for elderly and \$139.4 million for 20-year Section 162 contracts for non-elderly handicapped
 - . FY91 budget requests \$60.9 million for 5-year Section 8 for leasing program for elderly; and \$46.6 million for 5-year contract for handicapped.

- H.R. 2376
Section 2(b)
- Project Operating Assistance (similar to S.565); gap between operating costs and project income for units occupied by very low and lower income residents, including service coordinator
 - . 20 year contract

Existing law difference between tenant rent and HUD determined Fair Market Rent (FMR)

- AAHA position
- essentially supports S.566 and H.R. 2376; however, recommend that targeting requirements be relaxed to enable more mixed income projects; terms of operating subsidy should be the same as terms of forgivable loan (40 years).

o SUPPORTIVE SERVICES

- S.566
Section 511(g)
- provides community space and staffing to facilitate a range of supportive services for frail elderly residents (implied, "shall ensure that housing assisted...shall provide range of services tailored to needs...")

- requires a Supportive Services Plan with application
 - no funds for the specific services (although transitional grants for start-up services as part of Project Retrofit);
- extends existing CHSP contracts for three years
- H.R. 1180
- Section 422
 - authorizes project funds (Section 8 assistance) for employment of Service Coordinators for frail elderly
 - require that HUD review and modify programs to ensure that they meet needs of frail elderly; requires annual report to Congress including actions taken and recommendations for program changes to accommodate frail elderly
 - authorizes \$10 million for Congregate Housing Services Programs (CHSP) in each of FY90 and FY91 (Section 423)
- H.R. 4245/S.2304
 - Recommends a new 5-year demonstration (Independence for Elderly Americans) to provide service-supportive housing vouchers for frail elderly
 - Competitive grants to Public Housing Authorities (PHA) to provide a total of \$10 million service funding to be linked with \$34 million 5-year housing vouchers to assist 1,500 frail elderly
 - HUD service funding will cover 40 percent of total service costs; tenant will pay 10 percent, and State, local and private sectors the 50 percent balance
 - The FY91 budget request no funds to continue the present CHSP program (31 elderly projects servicing about 2,000 frail elderly tenants in Section 202 and public housing)
- H.R. 2376
- Section (2,B,b)
 - provides for the staffing of a services coordinator for services provided within the facility by other agencies to enable resident to live independently and prevent institutionalization
 - provides up to 15% for cost of the provision of services (meals, housekeeping, personal care, transportation, etc.)
- Existing law
 - HUD cost containment policies/regulations have generally disapproved costs for adequate community space, staffing for social service coordinator, and supportive services
 - authorizes \$10 million for CHSP—as a separate program for limited number of frail elderly in Section 202 and public housing projects (note: FY89 Appropriations provided \$5.4 million to continue existing projects)
- AAHA position
 - supports H.R. 2376 and H.R. 1180 to fund a service coordinator from project operating costs; supports 15% match for services; would recommend clarification of supportive services provided within the facility to include adjacent or part of the facility's campus or administrative system; would recommend at least \$20 million to expand CHSP beyond

existing projects.

o PROJECT RETROFIT

- S.566
Section 512
- authorizes \$50 million in FY90 and \$52 million in FY91 for grants (non-profit, public housing and private sector) to modify existing facilities to accommodate supportive services to frail elderly
 - . requires a Support Service Plan
 - . Professional Assessment Committee
 - . five percent of funds may be used as supplemental grants when necessary to maintain adequate level of services
 - . annual HUD report to Congress
- H.R. 1180
Section 422
- authorizes \$10 million from loan authority in each of FY90 and FY91 for Section 202 projects for frail elderly
 - authorizes expenses for renovations and improvements to make units more accessible (grab bars, switches, widened doorways, etc.) and space within the facility for the provision of supportive services
- H.R. 4245/S.2304
- no provisions
- H.R. 2376
- no provisions
- Existing law
- no provisions
- AAHA position
- essentially supports S.566; however, would expand authorization level to \$100 million particularly since funds available for public housing and private sector; also specify that loans be used for private sector; clarify that the space for provision of services may be within, adjacent, part of campus, or administrative system for provision of services to residents.

o RENT

- S.565
Section 511(c)(3)
- 30% of resident adjusted monthly income or 10% of monthly income
 - . additional rents may be charged for cost of support services
- H.R. 1180
- continues existing program
- H.R. 4245/S.2304
- continues existing programs
- H.R. 2376
- 30% of adjusted monthly income; 25% for efficiencies
- Existing law
- 30% of adjusted monthly income
- AAHA position
- essentially supports S.566 and HR2376; although recommend flexibility with rent adjustments on units based on local marketing conditions, such as lower

rents for efficiencies; (supports HR2376 provision for 25% of income for efficiencies); supports sliding fees based on income and use for resident fees for supportive services

o ELIGIBILITY

S.565

- Section 511(1) & (2)- maintain targeting request to very low income (50% of area median income)
- . other income groups eligible for funding under the proposed Housing Opportunity Program (HOP) (Title III of bill)
 - . allows use of other non-federal funds for other portions of facility Section 511(h)(5)

H.R. 1180

- no provisions (continues existing targeting) although the bill (Section 406) increases to 25% the number of units for lower income, i.e., up to 80% of area median income in public housing
- the bill (Section 324) also provides that either 20% of lower income (50% area median) or 40% of low and moderate income persons (60% of area median income) with a cap on eligibility at 80% of area median income to be eligible for the new proposed Community Housing Partnership Grants to states, local governments, and non-profits

H.R. 4245/S.2304

- continues present targeting requirements

H.R. 2376

- targets very low income, except allows up to 25% for lower income if the average income of the project does not exceed 50% of the area median income

Existing law

- targets only very-low income
- . limited flexibility with up to 5% of total federal assisted units to low-income persons
- . HUD present policies for waiting lists gives preference to those spending more than 50 percent of money? on rent, have been displaced, or live in substandard housing

AAHA position

- essentially supports H.R. 2376; although recommends increased flexibility for mixed income projects to provide affordable housing options for low and moderate income older persons
- . supports mixed income projects as a means to increase operating revenues, to provide a better social environment, and to increase access to formal and informal family and community resources for supportive services

o CONSTRUCTION COST LIMITATIONS

S.566

- Section 511(h) - cost based on market area for various types and sizes of supportive housing for the elderly, including special design and community space indexes

- incentives to share 1/2 of cost savings with sponsor for project use

- H.R. 1180 - no provisions
- H.R. 4245/S.2304 - continues present policies
- H.R. 2376- specifies "economic manner...not extravagant design"; prohibit cost limitations regarding building design that prevents or prohibit the provision of supportive services; encourages various methods meeting needs of residents through unique and special designs; economy of scale with practicability of provision of services
- Existing law - cost limits based on HUD determined FMRs, with restrictions with cost containment requirements, such as efficiencies, size of units, and amount of community space
- AAHA position - essentially supports S.565 and H.R. 2376; although supports use of commercially available construction indexes.

OTHER

- S.566 - Housing Opportunity Program (HOP) - grants to States and local governments (50/50) by formula (80%) and national competition 20% to provide flexible funds for affordable housing (rehabilitation acquisition and construction); \$1 match for every \$4; each state receive at least \$3 million and localities at least \$2 million; 10 percent set aside for non-profits.
- H.R. 1180 - Community Housing Partnership - authorizes \$500 million in FY91 (\$521.5 in FY92) for formula grants to state, local governments and non-profits to provide maintenance, rehabilitation and construction for low and moderate income; \$1 match for every \$3 million; \$25 million for housing education and organization support.
- HOPE - Provides formula grants to States and competition grants to localities, (\$500 million in FY91, \$650 million FY92, \$1 billion FY93) to increase home ownership for low income and working poor families (\$1 billion for public housing, \$569 for Urban Homesteading; \$567 million for non-profit and affordable housing; \$250 million set aside for replacement housing; \$1 match for every \$2; grants for acquisition, rehabilitation, technical assistance, etc.; not for new construction; 10 percent set aside for non-profits
- AAHA - AAHA essentially supports the HOPE program providing local flexibility, emphasis on new construction, mixed income, matching requirements

MS33

Retirement Housing Report

■ Looking Beyond the HUD Scandals: In Search of Affordable Housing for the Elderly

Larry McNickle

During the final hours before its adjournment on November 22, 1989, Congress rushed through passage of legislation designed to tighten HUD management. The bill, H.R. 1, the Housing and Urban Development Act of 1989, incorporated many of the recommendations proposed by HUD Secretary Jack Kemp in response to recently uncovered HUD scandals. Testifying on his proposed reforms, Secretary Kemp stated that he was interested in "clearing the deck" of influence-peddling, fraud and abuse in the scandal-ridden HUD Department.

The comprehensive bill focused on three major areas: ethics reform, management reform, and reform of the Federal Housing Administration (FHA). While there was a general consensus that something needed to be done to correct past abuses, Congress had little time to carefully review the substance and full impact of this legislation. Unfortunately, in some cases, the result may be that the medicine may prove worse than the disease. For example, among the nearly 50 provisions of the bill is a violation of certain contract or regulation agreements in the Section 202 Elderly and Handicapped Housing Program. While abuses should be corrected, the Section 202 program has not experienced the type of scandals associated with some of the other federal programs that the bill was intended to correct. In fact, the Section 202 program, which provides nonprofit sponsors (mostly church-based organizations) with loans to develop affordable housing for very low-income older persons, has been recognized for its sound management and integrity. It remains to be seen, with the promulgation of the regulations and their enforcement, whether these new rules will serve as a further disincentive for nonprofit sponsors involved with federally assisted housing for low-income persons.

The enactment of the HUD reform legislation follows earlier administrative actions initiated by Secretary Kemp to correct mismanagement and abuses. In addition to internal actions, Secretary Kemp placed sanctions against firms with a record of extensive mismanagement and also ordered the suspension of a number of federal housing programs. These include the Section 8 Moderate Rehabilitation program, because of influence-peddling, and the Retirement Service Center Program (ReSC), due to mismanagement and excessive

financial losses. The ReSC program suspension has recently been lifted, with significant changes being made as to guidelines for eligibility.

The combination of prompt enactment of H.R. 1 and earlier administrative actions clearly indicates the strong support that Secretary Kemp has earned for his decisive leadership in cleaning up the scandals and mismanagement at HUD. The public has become aware of and disgusted with the influence-peddling, abuses and waste of public resources that had prevailed with many HUD housing programs.

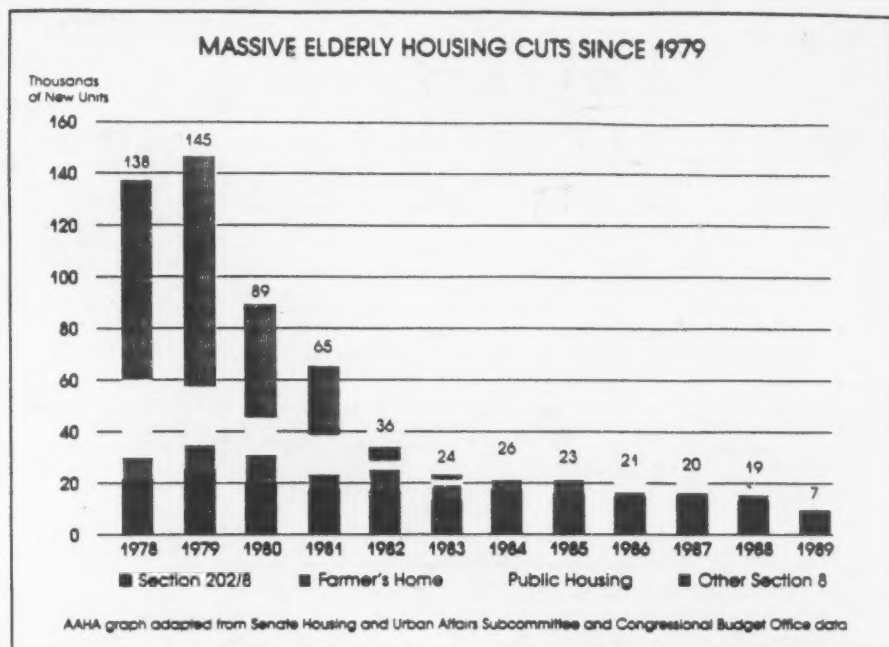
The Other Housing Scandal

There is, however, another "housing scandal." This is a scandal of federal government actions taken over the past few years which have systematically undermined the availability of affordable and suitable housing for the elderly. Motivated by the need to reduce the federal budget deficit and a desire to minimize the direct federal role in providing assisted housing, new budget authority for housing assistance has been reduced by over 80 percent compared to 1970s levels. These funding cuts have contributed to excessive numbers of homeless, increased waiting lists, deterioration of many existing housing facilities, the threat of displacement and other housing scandals.

Funding Cuts

Since 1983, the only federal program for new construction has been the Section 202/B program for elderly and handicapped housing. Yet, even this successful program has experienced a steady decline in the number of units funded, from over 20,000 units in 1979 to only 6,375 units of elderly housing and 2,125 units for handicapped in fiscal year 1990. The combination of increasing elderly population, increasing housing costs, and reduced federal assistance has resulted in large increases in the multi-year waiting lists at many Section 202 elderly housing projects. There are currently over a quarter-million older persons on waiting lists. A 1989 study of the Section 202 program conducted by the University of Illinois documented that there are 11 older persons waiting for each available Section 202 housing unit in urban areas. This critical shortage in affordable housing is further illustrated by the growing numbers of eligible older persons who may not be able to obtain admission due to tighter eligibility requirements. Many low-income and moderate-income older persons who cannot afford market-rate housing have also been squeezed out of eligibility for federal assisted housing. These actions have resulted in increased numbers of older persons not being able to obtain suitable and affordable housing; this, too, is a national housing scandal.

Retirement Housing Report



Expiring Contracts/Prepayments

Many housing experts predict a crisis in low-income and moderate-income housing in the next few years, as the number of government assisted housing units is dramatically reduced due to expiration of rent subsidy contracts and possible prepayment of federal mortgages after 20 years, which would remove any federal requirement regarding occupancy by low-income and moderate-income tenants. A study by the American Association of Retired Persons (AARP) indicated that over 75,000 of the nearly 115,000 units which are occupied by older persons in these programs (Sections 236; 221 (d)(3); and 515) are likely to be prepaid. In addition to the threat of displacement, older persons may experience significant rent increases due to expiring Section 8 rent subsidies. Such financial and emotional hardships for vulnerable older persons would be a national housing scandal.

HUD Management

Over the past few years, a series of administrative actions has also curtailed cost-effective development

and management of suitable and affordable elderly housing. With the Section 202 projects, these administrative actions have included the calculation of development costs based on unrealistic fair-market rents and restrictions on the quality of the housing environment due to HUD-imposed cost containment requirements (such as requirements for efficiency units, restrictions on the size of the community space, and even in some projects disallowing costs for elevators and sprinklers). In addition, there has been a significant reduction during the past few years in the HUD staffing levels. Not only has this reduced staffing resulted in an increased work load and minimized supervision (perhaps as evidenced by abuses and mismanagement), but it has also restricted timely communication, technical assistance and paperwork processing time. The result of these administrative actions and understaffing can be illustrated by the backlog of applications in the Section 202 program. There are over 30,000 units in the Section 202 development pipeline. These are projects which have been federally funded but are not yet under construction. The

number of units started each year as a percentage of the number of units in the pipeline has decreased from 54 percent in 1980 to just 13 percent in 1988. For nonprofit sponsors seeking to develop suitable and affordable housing for older persons, the backlog of funded projects started in red tape and still unavailable to the elderly is the greatest national housing scandal.

Support Services

Finally, there is a need to develop housing which effectively links supportive services for older persons as they "age in place." Approximately 25 percent of the residents of federally assisted elderly housing are in need of some level of supportive services. Yet current federal policies for managing elderly housing prevent managers from facilitating supportive services for their frail older residents. Supportive housing not only promotes independence and quality of life, but it also promotes cost effectiveness in federal spending by preventing unnecessary or premature admissions to nursing homes. Given current budgetary constraints, actions and policies which have prevented more cost-effective and humane supportive housing for the frail elderly is a national housing scandal.

Opportunity for Reform

Because of the need to expedite administrative and legislative actions to halt past mismanagement and HUD scandals, congressional and administrative actions to reform federal housing policies have been delayed until next year. This past year, Senators Cranston (D-CA) and D'Amato (R-NY) introduced S. 565, the National Affordable Housing Act, to reform federal housing policies. Included as part of this proposed legislation is supportive housing for the elderly, which proposes to establish a new HUD assistant secretary for supportive housing; reform of the Section 202 funding mechanism by converting it into a forgivable loan and replacing Section 8 certificates with

LEGISLATION AT A GLANCE

SECTION 202:

A HUD program for nonprofit sponsors providing direct loans to sponsor development of elderly or handicapped housing. Since 1981, Section 202 has been linked with Section 8, a rent subsidy program under HUD.

SECTION 234:

An interest-rate subsidy program, wherein the sponsor gets a loan from a private lender, and the federal government abates the interest rate down to 1 percent.

SECTION 221 (d)(3)

A HUD-provided federal mortgage-insurance plan.

SECTION 515:

Farmer's Home Program, under the auspices of the Department of Agriculture, providing elderly housing in rural areas.

project operating assistance; and retrofit of existing elderly housing projects to accommodate support services for the frail elderly.

Congressman Gonzales (D-TX) also included a number of reform measures for elderly housing as part of H.R. 1180, the Reauthorization of the Housing and Community Development Act. This bill would include funding of a support service coordinator from the project operating budget. Similarly, Congressman Roybal (D-CA) introduced a comprehensive bill, H.R. 2376, to provide supportive housing for the frail elderly, including proposed HUD funding for part of the costs of providing support services for frail elderly residents, as well as sliding fees for co-

payment by residents.

In early November, President Bush and Secretary Kemp announced a comprehensive package of initiatives to provide Homeownership Opportunities for People Everywhere (HOPE). Included as part of the bill is a one-year demonstration program to link supportive housing with frail elderly. The program would provide funds for service-supportive housing vouchers (\$10 million) to be linked with housing vouchers (\$34 million) to assist 1,500 frail elderly. Residents would be required to pay 10 percent of the cost of the service; and the service voucher would provide 40 percent of the costs, with the balance provided by the states.

On December 3, AHA president Sheldon Goldberg and other key members of staff met with Secretary Kemp to discuss the ongoing need for HUD management and federal housing reform. After many years of seemingly benign neglect, the scandal of greed, politics and mismanagement may finally be coming to an end. Perhaps, as we end this decade of unparalleled cuts in federal housing funds, mismanagement, waste and scandal, and consider the opportunities and challenges for the 1990s, we can be reminded that "the darkest hour is just before the dawn."

Larry McNickle is the director for housing and tax policies with the American Association of Homes for the Aging.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

May 4, 1990

Honorable Donald W. Riegle
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

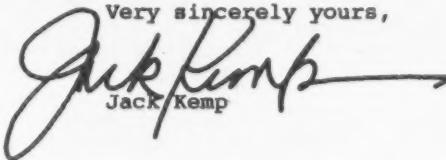
Dear Mr. Chairman:

Thank you again for the opportunity to testify on March 20, 1990 before the Committee regarding the Administration's HOPE legislation.

Enclosed are answers to the questions for the record requested by Senator Bond in your March 29, 1990 letter.

I look forward to working with you and the Committee to forge a housing bill this year.

Very sincerely yours,


Jack Kemp

Enclosure

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BOND FROM
JACK KEMP

Q.1. I am interested in your views about what should be done about the problems in public housing. Certainly most public housing is well run and is a valuable resource to the community, but there is a visible minority of public housing developments that are not decent places to live. I know you just took over the housing authority in Passaic, New Jersey, and have proposed resident ownership and management as a remedy for the ills of public housing, but do you have any other ideas? What is HUD's position on my legislation, S. 2301, which makes some changes in the relationship between HUD and local PHAs?

A.1. S 2301 has many features which are similar to recommendations which I sent to Congress on April 6 as part of the report to Congress on Alternative Methods for Funding Public Housing Modernization. Major reforms called for in the report include funding modernization by formula for PHAs with 500 or more units under management starting in FY 1991, going down to 250 units in the next fiscal year, a reform also called for in your bill. Funding modernization by formula will allow PHAs greater flexibility and freedom to make decisions about appropriate repair and replacement decisions, and should result in greater efficiency and economy in the use of Federal modernization money to maintain and upgrade their public housing projects.

Under my proposal troubled PHAs would be funded by formula, instead of remaining under the competitive application portion of the program, as called for in your bill. However, while troubled PHAs would be formula-funded, the amount of modernization funds they could receive would be capped at their historical average of funding for modernization, in order to avoid providing these PHAs with more funds than they could efficiently and effectively spend to improve the living conditions in their projects. These troubled PHAs could receive a maximum annual increase in modernization funding of 25 percent over their initial allocation. This increase would be dependent upon their progress in meeting the performance standards set forth in their Memoranda of Agreement with HUD on actions to be taken to correct major management deficiencies including their achievements in reducing vacancies. Thus, the intent of my recommended approach to troubled PHAs is the same as that proposed in your bill, to avoid rewarding troubled PHAs, and to create incentives for them to take the management and other actions which would lead to improved living conditions for their residents.

My proposal calls for funds retained by HUD from capping the formula allocation for troubled PHAs to be reallocated to "recognized performer" PHAs. Thus, although we use different routes, both your bill and my recommendations for the modernization program create strong incentives for PHAs to improve their management and achieve high performer or recognized performer status. The Department is now working on a revised and strengthened recognized performer system to be in place by the start of FY 1991. The new system will include factors specifically relating to modernization, as well as internal financial controls.

Q.2. One of the ideas that has come up over and over in my discussions about housing back in Missouri is the thought that it is desirable to maintain an income mix in neighborhoods. The trend with our assisted housing programs, however, has been in the other direction with units reserved only for people with very low incomes, because scarce resources should be concentrated on those who really need them. What do you think about this question? Should assisted housing be reserved only for very, very low income residents, or is it more desirable social policy to have an income mix?

A.2. It is certainly more desirable social policy to have an income mix, but this is difficult to achieve in project-based housing assistance for two reasons. The first is the reason you have cited: when almost four million very low income families and the elderly are paying over half their income for rent or living in substandard housing, it is desirable to use both incremental assistance and turnover in our stock of assisted housing units to help these families, rather than families with somewhat higher incomes and less housing distress. The second reason is that it is difficult to design housing programs that build projects that are marketable as mixed-income housing. For example, the major current Federal subsidy program for developing rental housing, the low income housing tax credit, requires that projects reserve only 20 percent of the units for those with incomes below 50 percent of median or 40 percent of the units for those with incomes below 60 percent of median. The other units can be rented to anyone at competitive market rents. And yet very few developers using the tax credit have taken advantage of this feature. Over 85 percent of all the units in projects using the tax credit are low income units.

One of our objectives for resident ownership conversions of public housing and FHA-insured projects is to encourage the natural development of an income mix in these projects as the incomes of residents rise and the resident owners remain committed to the homes in which they have made an investment. This is a more promising approach for overcoming the very, very low income character of assisted housing projects than trying to attract relatively higher income families to rental projects.

For rental housing assistance, one of the many attractive features of tenant-based vouchers and certificates is that they overcome the problem of how to maintain mixed income neighborhoods while still spending scarce Federal resources on the neediest. Because families assisted by vouchers and certificates are scattered in the rental housing stock of low, moderate, and middle income neighborhoods (i.e., in units that rent for around the Fair Market Rents, which are at the middle of the housing market), they do not form an artificial, government-created concentration of the very poor.

Q.3. What conditions need to be present to allow resident ownership conversions to be successful? Will such conversions work better with single family homes or larger projects? How do you answer the right-wing criticism that resident ownership doesn't allow the residents to take advantage of the appreciation in the property because of the resale restrictions in the law?

A.3. There are several important differences between the Public Housing Homeownership proposal under the HOPE legislation and our previous efforts to sell public housing which should ensure the viability of these sales:

1. Previous efforts did not permit any units to be sold with a subsidy attached to them or did not set-aside sufficient funding for this purpose. Buyers had to afford the cost of homeownership (even if it was just operating costs). Under the HOPE program, buyers can receive a post-sale subsidy to help them purchase their units. HUD will require that this subsidy not be provided indefinitely, but that the applicant must have a feasible plan for phasing out the need for the subsidy.
2. Previous efforts required that units be in good condition at the time of sale, but provided no financing source for rehabilitation. PHAs either had to choose to use part of their CIAP funding for this purpose or finance the rehabilitation through the mortgages to the buyers. Under the HOPE program, rehabilitation will be an eligible cost, so that neither other projects or the tenants themselves will have to bear this cost.
3. While counseling and training were provided to prospective purchasers under previous efforts, funding for this purpose was either small or non-existent. We now know how expensive counseling and training are, especially since they should be provided for several years after sale. The HOPE program makes these activities eligible costs.

With respect to the second part of the question, a distinction needs to be made between the viability and the facility of a sale. While it is easier to sell a single family house than a multifamily structure (in general, not just for this program), the concept of selling to residents makes eminent sense in either case.

Finally, we believe that our requirements on undue sales profits strike a balance between allowing the homebuyers to receive some portion of the equity gain, while not permitting them to capitalize on the large investment made by the Federal government. The bill provides four options to prevent purchasers from reaping undue profits for at least a period of 10 years. Depending on the option chosen, a homeowner will always be allowed to benefit from at least some, if not all, of the appreciation in the value of the unit. If a homeowner has a financial stake in the property, he or she is more likely to keep it in good condition or even upgrade it.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

May 4, 1990

Honorable Donald W. Riegle
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Thank you for your letter of March 23, 1990 requesting responses to additional questions for the record of the Committee's March 20, 1990 hearing on the Administration's HOPE initiatives.

I am pleased to provide answers to the questions raised by Senator Christopher Dodd. The questions and answers are enclosed with this letter.

Thank you again for the opportunity to testify before the Committee.

Very sincerely yours,

A handwritten signature in dark ink, appearing to read "Jack Kemp", with a long horizontal flourish extending to the right.

Jack Kemp

Enclosures

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM
JACK KEMP

Q.1. As the National Governors' Association has stated, HOPE's focus on homeownership opportunities for low-income families is a laudatory goal, but many families don't have access to any affordable housing, even rent. It's well documented that we're losing 1.5 million units of low-cost housing each decade. The number of poor families and poor families with children has grown. I question whether the HOPE initiative really comes to terms with the crisis of AVAILABILITY of low and moderate income housing in this country. Could you comment?

A.1. As you note, the number of poor families has grown since 1970, with female-headed poor families with children doubling, whereas the number of housing units affordable to those families without subsidy has dropped, in part because of losses of low-rent units. Between 1973 and 1983, the only recent 10-year period with consistent data on losses, 1.3 million units that had rents below \$100 in 1973 were lost from the stock. Although the losses were partially offset by subsidized new construction, the total number of units with rents below \$100 (in 1973 dollars) fell by 1.3 million between 1973 and 1987, the 1st year for which we have data. Over this 1973-87 period, the number of poor families grew from 4.8 to 7 million and poor renters households grew from 5.3 to 7.4 million.

With vacancy rates of 7 percent among units renting for less than FMR, the problem is not availability of low-cost units, but availability of resources to pay for them. Basically, we have been more successful at improving housing conditions than in combatting poverty. Between 1974 and 1987, housing conditions improved even among poor renters: the proportion with inadequacies dropped from 28 to 19 percent, and the proportion crowded from 15 to 9 percent. Yet as low quality units were razed or upgraded, the costs of operating and maintaining decent units have risen. Moreover, as you know, some of the subsidized units constructed over the past two decades are threatened by prepayment.

In this context, HOPE represents a balanced beginning at developing long run solutions rather than short-run fixes that benefit developers more than those in most need. By focusing on empowering and enabling those in need to manage, own, and develop housing, it not only provides a firm basis for using housing assistance as a springboard for fighting poverty, but it also deals with our most pressing current housing problems: unaffordability, potential loss of subsidized units built during the 1970s, and abandonment of private and public units, especially in high poverty areas.

Q.2. When all is said and done, the HOPE program is funded entirely from cuts in funding to existing and successful programs designed to meet the housing of low-and moderate-income Americans (CDBG, public housing modernization, Section 202). Jack, what does a good idea mean around this place if it is matched by budgetary numbers that add up to a cut in funding and that effectively perpetuate the myth that real housing policy is being forged in this country. (Effectively, the Bush housing budget has a real cut of \$520 million for housing.) The bottom line is that we need more, not less, support for housing in this country. Is the Administration going to have a real discussion with us about that?

A.2. The fact is that the Administration's FY 1991 budget for HUD, not even including the renewal of expiring contracts, represents a small, but nonetheless real increase of \$78.258 million in budget authority over 1990. This represents the Department's discretionary budget authority increase from 1990 to 1991, an actual number. This figure does not include the \$7.7 billion needed to renew expiring Section 8 contracts "in kind" for five years, a commitment I made to Congress last year, but which many people repeatedly, and publicly questioned.

There are decreases in the HUD 1991 budget, but there are also increases. It would be irresponsible if I presented a budget that did not reduce resources for flawed programs that lead to waste, duplication and abuse while increasing resources for programs that lead to self-sufficiency and opportunity for those in need. In this regard, I'd be astonished if anyone wanted my first budget at HUD to freeze in place the failed programs we have spent the last year addressing.

The housing policy debate should not focus solely on budget authority, or incremental units (even though the Administration proposes a 12 percent increase over 1990; 73,214 units to 82,049 units). The real focus of the housing policy debate should be on how we help low-income Americans climb the ladder of economic opportunity to self-sufficiency.

HOPE provides real opportunities for low-income Americans to share in the American dream of homeownership. In addition, it provides other opportunities, such as rental assistance in coordination with social services to serve better our homeless and elderly Americans. HOPE does not represent "business as usual" at HUD, and we should not pursue such a course.

HOPE provides \$1.2 billion in new budget authority to provide homeownership and rental opportunities to low-income Americans to achieve economic self-sufficiency. It also provides \$.2 billion in tax expenditures for Enterprise Zones, Low Income Housing Tax Credits, and IRAs for first-time homebuyers. These are the housing and economic development policies we should discuss and need your support.

Q.3. HOPE would extend the Low-Income Housing Tax Credit for one year. Why not make the credit permanent?

A.3. Clearly, making the Low-Income Housing Tax Credit (LIHTC) permanent would be useful to the State allocating agencies, developers, non-profits and other entities participating in the program in terms of planning future housing activities.

Nevertheless, the Administration is proposing only a one year extension at the restored \$1.25 per capita level. The LIHTC is a major budgetary initiative. A one year extension of the credit at the \$1.25 per capita level can result in over \$3 billion in revenue losses over time to the Federal Government. The effectiveness and efficiency of the LIHTC to assist low-income people needs to be more fully understood before committing to a permanent authorization for a program of this magnitude.

Since the LIHTC was a new and untested mechanism to involve the private sector in developing and rehabilitating rental housing for low-income, the Tax Reform Act of 1986 provided an initial three year authorization. Based on the initial three year experience, the recently enacted one year extension through 1990 involved a substantial revision to the program. Major changes include greater responsibilities for States in terms of tighter project selection criteria and evaluating the minimum amount of credit and total project subsidy needed as well as extended low-income use restrictions.

The Administration supports the extension of the LIHTC through 1991 so as to both continue to provide additional needed low-income housing and to provide a longer period over which to assess its success and effectiveness. As the revised LIHTC is implemented in 1990 and 1991, the question of permanently authorizing the program will be reexamined in light of overall budgetary considerations and other housing initiatives.

Q.4. Most of the discretionary decision making in your proposal would take place at HUD rather than in the states. With HUD's institutional problems and with the expertise in housing that has developed at the State and local level over the last ten years, isn't it the wave of the future that the decision making be made at the State and local level -- with the Federal Government establishing guidelines and goals? Surely, Chris Dodd needn't ask Jack Kemp such a question?

A.4. Clearly there needs to be shared responsibility between the Federal Government and the State and local governments. Yet, resources available to meet the needs are always limited, and targeting is needed to make sure that the funds are used to achieve maximum impact. The decision making in HOPE programs isn't discretionary, it is a competitive process designed to meet national goals. It is based on publicly established criteria and the rating and ranking of proposals based on their relative merit. I think HUD's proposed legislation, including HOPE grants, achieves the right balance between this need for a shared responsibility and the need to target funds to those areas and those types of programs where the greatest benefit can be realized.

○